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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

APR 10 2009

DOCKETED BY

MM

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY FOR AN
EXTENSION OF ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. W-01445A-06-0199

IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR
AN EXTENSION OF ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. SW-03575A-05-0926

IN THE MATTER OF THE APPLICATION OF
SANTA CRUZ WATER COMPANY FOR AN
EXTENSION OF ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. W-03576A-05-0926

IN THE MATTER OF THE APPLICATION OF
PALO VERDE UTILITIES COMPANY FOR
AN EXTENSION OF ITS EXISTING
CERTIFICATE OF CONVENIENCE AND
NECESSITY.

DOCKET NO. SW-03575A-07-0300

IN THE MATTER OF THE APPLICATION OF
SANTA CRUZ WATER COMPANY FOR AN
EXTENSION OF ITS CERTIFICATE OF
CONVENIENCE AND NECESSITY.

DOCKET NO. W-03576A-07-0300

ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION,

COMPLAINANT,

VS.

GLOBAL WATER RESOURCES, LLC, A
FOREIGN LIMITED LIABILITY COMPANY;
GLOBAL WATER RESOURCES, INC., A
DELAWARE CORPORATION; GLOBAL
WATER MANAGEMENT, LLC, A FOREIGN
LIMITED LIABILITY COMPANY; SANTA

DOCKET NO. W-01445A-06-0200
DOCKET NO. SW-20445A-06-0200
DOCKET NO. W-20446A-06-0200
DOCKET NO. W-03576A-06-0200
DOCKET NO. SW-03575A-06-0200

1 CRUZ WATER COMPANY, LLC, AN
2 ARIZONA LIMITED LIABILITY
3 CORPORATION; PALO VERDE UTILITES
4 COMPANY, LLC, AN ARIZONA LIMITED
5 LIABILITY CORPORATION; GLOBAL
6 WATER – SANTA CRUZ WATER
7 COMPANY, AN ARIZONA CORPORATION;
8 GLOBAL WATER – PALO VERDE
9 UTILITIES COMPANY, AN ARIZONA
10 CORPORATION; JOHN AND JANE DOES 1-
11 20; ABC ENTITIES I-XX,

12 RESPONDENTS.

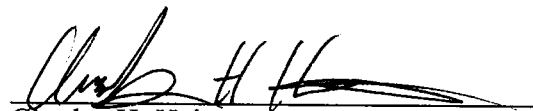
13 IN THE MATTER OF THE JOINT
14 APPLICATION OF CP WATER COMPANY
15 AND FRANCISCO GRANDE UTILITIES
16 COMPANY TO TRANSFER THEIR
17 CERTIFICATES OF CONVENIENCE AND
18 NECESSITY AND ASSETS TO PALO VERDE
19 UTILITIES COMPANY AND SANTA CRUZ
20 WATER COMPANY.

DOCKET NO. WS-01775A-07-0485
DOCKET NO. SW-03575A-07-0485
DOCKET NO. W-02442A-07-0485
DOCKET NO. W-03576A-07-0485

**STAFF'S NOTICE OF FILING
RESPONSIVE TESTIMONY**

21 Staff of the Arizona Corporation Commission ("Staff") hereby files the Responsive
22 Testimony of Staff Witnesses Robert G. Gray and Linda A. Jaress in the above-referenced matter.

23 RESPECTFULLY SUBMITTED this 10th day of April, 2009.



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Robin R. Mitchell
Attorneys, Legal Division
Arizona Corporation Commission
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24 Original and thirteen (13) copies
25 of the foregoing were filed this
26 10th day of April, 2009 with:

27 Docket Control
28 Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Copy of the foregoing mailed this
2 10th day of April, 2009 to:

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Roseann Osorio

DIRECT

TESTIMONY

OF

ROBERT G. GRAY

LINDA A. JARESS

DOCKET NOS. W-01445A-06-0199, SW-03575A-05-0926, W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200, W-03576A-06-0200, SW-03575A-06-0200, WS-01775A-07-0485, SW-03575A-07-0485, W-02442A-07-0485, W-03576A-07-0485

**ARIZONA WATER COMPANY AND GLOBAL WATER RESOURCES,
LLC, CONSOLIDATED DOCKET FOR EXTENSIONS OF
CERTIFICATES OF CONVENIENCE AND NECESSITY AND TRANSFER
OF ASSETS**

APRIL 10, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

ARIZONA WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. W-01445A-06-0199

PALO VERDE UTILITIES COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. SW-03575A-05-0926

SANTA CRUZ WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO- W-03576A-05-0926

PALO VERDE UTILITIES COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. SW-03575A-07-0300

SANTA CRUZ WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO- W-03576A-07-0300

ARIZONA WATER COMPANY)
COMPLAINANT VS GLOBAL)
WATER RESOURCES, LLC, ET AL)
_____)

DOCKET NOS. W-01445A-06-0200
SW-20445A-06-0200
W-20446A-06-0200
W-03576A-06-0200
SW-03575A-06-0200

JOINT APPLICATION OF CP WATER)
COMPANY AND FRANCISCO)
GRANDE UTILITIES COMPANY TO)
TRANSFER THEIR CERTIFICATES OF)
CONVENIENCE AND NECESSITY AND)
ASSETS TO PALO VERDE UTLITIES)
COMPANY AND SANTA CRUZ WATER)
COMPANY.)
_____)

DOCKET NO. WS-01775A-07-0485
SW-03575A-07-0485
W-02442A-07-0485
W-03576A-07-0485

DIRECT
TESTIMONY
OF
ROBERT G. GRAY
EXECUTIVE CONSULTANT III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

APRIL 10, 2009

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Robert G. Gray. I am an Executive Consultant III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as an Executive Consultant III.

A. In my capacity as an Executive Consultant III, I conduct analysis and provide recommendations to the Commission on a variety of electricity, natural gas, and water matters. A copy of my resume is attached as Exhibit RGG-1.

Q. What is the scope of this testimony?

A. This testimony provides Staff's analysis, conclusions and recommendations regarding the requested Certificate of Convenience and Necessity ("CC&N") extensions for Arizona Water Company ("Arizona Water") and Global Water Resources, LLC ("Global"). My testimony also provides Staff's analysis, conclusions and recommendations regarding the transfer of CC&Ns and assets of Francisco Grande Utilities Company ("Francisco Grande") and CP Water Company ("CP") to Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Utilities Company ("Santa Cruz"). Staff Witness Linda Jaress will address the Settlement Agreement and the financial health of Global in her testimony and Staff Report.

Q. Please identify the Exhibits you have attached to your testimony.

A. Exhibit RGG-1 is my resume. Exhibit RGG-2 is my Staff Report addressing the CC&N extensions and transfers of CC&Ns and assets. Exhibit RGG-3 is the Staff Engineering Report prepared by Marlin Scott Jr. for the Arizona Water CC&N extensions. Exhibit

1 RGG-4 is the Staff Engineering Report prepared by Dorothy Hains for the Global CC&N
2 extensions. Exhibit RGG-5 is the Staff Engineering Report prepared by Dorothy Hains
3 for the transfer of CC&Ns and assets from Francisco Grande and CP to Palo Verde and
4 Santa Cruz. Exhibit RGG-6 contains several data responses from Arizona Water
5 regarding recent verbal affirmations of requests for service in the areas it is seeking to
6 extend its CC&Ns. Exhibit RGG-7 contains maps showing Staff's recommended CC&N
7 extensions for Global and Arizona Water.

8
9 **Q. Please provide an overview of the contents of your Staff Report and related Exhibits.**

10 A. My Staff Report discusses the history of this proceeding, the requested CC&N extensions
11 for Arizona Water and Global, and Staff's recommendations to grant a limited portion of
12 each company's requested CC&N extensions, based upon a number of factors, including
13 which areas contain updated/new requests for service. My Staff Report also discusses the
14 transfer of CC&Ns and assets from CP and Francisco Grande to Santa Cruz and Palo
15 Verde. The Engineering Reports contained in Exhibits RGG-3 through RGG-5 contain a
16 number of recommended conditions regarding the CC&N extensions as well as the
17 transfer of CC&Ns and assets.

18
19 **SUMMARY OF RECOMMENDATIONS**

20 **Q. Please summarize Staff's recommendations.**

21 A. My testimony, including attached Exhibits, includes the following recommendations:

22
23 Staff recommends that the Commission approve limited CC&N extensions for Arizona
24 Water and Global, as discussed herein and shown in Exhibit RGG-7, and subject to the
25 conditions listed below. Staff further recommends approval of the transfer of the CP and

1 Francisco Grande assets to Santa Cruz and Palo Verde, subject to the conditions listed
2 below.

3
4 *Arizona Water*

- 5
- 6 1. Staff recommends that the Company file with Docket Control, as a compliance
7 item in this docket by December 31, 2012, a copy of the Approval to Construct
8 ("ATC") for the first parcel to be served in the extension areas.
9
 - 10 2. Staff recommends that the Company file with Docket Control, as a compliance
11 item in this docket by December 31, 2010, a copy of an updated Arizona
12 Department of Water Resources ("ADWR") Compliance Status Report indicating
13 that the Coolidge System is in compliance.
14
 - 15 3. Staff recommends that the Company file with Docket Control, as a compliance
16 item in this docket by December 31, 2011, a copy of the update ADWR Physically
17 Availability Determination ("PAD") to include the approved extension areas.
18
 - 19 4. Staff recommends that the Company file legal descriptions consistent with the
20 CC&N extension areas approved by the Commission in this proceeding, and that
21 the Order in this proceeding not be effective until the legal descriptions are found
22 to be acceptable by Staff.
23
 - 24 5. Staff recommends approval of the CC&N extension as discussed herein and
25 reflected in the maps contained in Exhibit RGG-7.
26

1 *Global*

- 2
- 3 1. Staff recommends that Santa Cruz file with Docket Control as a compliance item
- 4 by December 31, 2012, a copy of Certificate of ATC issued by the ADEQ for the
- 5 wells, mains, storage tank and booster pump station installed to serve the first
- 6 parcel of the requested extension area.
- 7
- 8 2. Staff recommends that Santa Cruz file with Docket Control as a compliance item
- 9 in this docket by December 31, 2011, a letter from ADWR indicating that the
- 10 Santa Cruz Designation of Assured Water Supply ("DAWS") has been modified
- 11 and approved to include the approved extension areas.
- 12
- 13 3. Staff recommends that Palo Verde file with Docket Control as a compliance item
- 14 by December 31, 2012, a copy of ATC for the sewer mains that serve the first
- 15 parcel in the extension area.
- 16
- 17 4. Staff recommends that Santa Cruz file with Docket Control as a compliance item
- 18 by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS
- 19 has been modified and approved to include the CP and Francisco Grande service
- 20 areas.
- 21
- 22 5. Staff recommends that Palo Verde provide a copy of the amended 208 Plan to
- 23 include the service areas of CP and Francisco Grande by December 31, 2010.
- 24
- 25 6. Staff recommends that the Company file legal descriptions consistent with the
- 26 CC&N extension areas approved by the Commission in this proceeding, and that

1 the Order in this proceeding not be effective until the legal descriptions are found
2 to be acceptable by Staff.

3
4 7. Staff recommends that for CP's current customers, CP's existing rates should be
5 retained until such time as new rates are determined for Santa Cruz in its next rate
6 proceeding, which is currently before the Commission in Docket No. W-20446A-
7 09-0080.

8
9 8. Staff also recommends that Santa Cruz be required to notify CP's existing
10 customers of the on-going Santa Cruz rate proceeding and that they would be
11 subject to rates and terms of service resulting from the current Santa Cruz rate
12 proceeding.

13
14 9. Staff recommends approval of the CC&N extension as discussed herein and
15 reflected in the maps contained in Exhibit RGG-7.

16
17 **Q. Does this conclude your Direct Testimony?**

18 **A.** Yes, it does.

RESUME

ROBERT G. GRAY

Education

- B.A. Geography, University of Minnesota-Duluth (1988)
M.A. Geography, Arizona State University (1990) Thesis: *A Model for Optimizing the Federal Express Overnight Delivery Aircraft Network.*

Employment History

Arizona Corporation Commission, Utilities Division, Phoenix, Arizona: Executive Consultant III (November 2007 – present), Public Utility Analyst V (October 2001 – November 2007), Senior Economist (August 1997 – October 2001), Economist II (June 1991 - July 1997), Economist I (June 1990 - June 1991). Conduct economic and policy analyses on a variety of natural gas issues in Arizona, including gas procurement, rate design, interstate pipeline issues, revenue decoupling, energy conservation, low income issues, natural gas research and development funding, customer services issues, special contracts, various tariff matters, and other natural gas issues. Conduct economic and policy analyses on a variety of electricity issues in Arizona, power plant and transmission line siting cases, energy efficiency, renewable energy standards, rate design, time-of-use service, and low income issues. Prepare recommendations and present written and oral testimony before the Commission and organize workshops and other proceedings on various utility industry issues. Represent the ACC in natural gas proceedings at the Federal Energy Regulatory Commission, at the North American Energy Standards Board, and on the National Association of Regulatory Utility Commissioners' Staff Subcommittee on Gas, including serving as a past Vice-Chair and Chair of the NARUC Staff Subcommittee on Gas.

Testimony

- Resource Planning for Electric Utilities, (Docket No. 0000-90-088), Arizona Corporation Commission, 1990.
- Citizens Utilities Company, Electric Rate Case (Docket No. E-1032-92-073), Arizona Corporation Commission, 1993.
- Resource Planning for Electric Utilities, (Docket No. 0000-93-052), Arizona Corporation Commission, 1993.

ATTACHMENT RGG-1

Arizona Public Service Company, Rate Settlement (Docket No. E-1345-94-120), Arizona Corporation Commission, 1994.

U S West Communications, Rate Case (Docket No. E-1051-93-183), Arizona Corporation Commission, 1995.

Citizens Utilities Company, Electric Rate Case (Docket No. E-1032-95-433), Arizona Corporation Commission, 1996.

Resource Planning for Electric Utilities (Docket No. U-000-95-506), Arizona Corporation Commission, 1996.

Southwest Gas Corporation, Natural Gas Rate Case (Docket No. U-1551-96-596), Arizona Corporation Commission, 1997.

Black Mountain Gas Company - Northern States Power Company, Merger (Docket Nos. G-03493A-98-0017, G-01970A-98-0017), Arizona Corporation Commission, 1998.

Black Mountain Gas Company – Page Division Rate Case (Docket Nos. G-03493A-98-0695, G-03493A-98-0705), Arizona Corporation Commission, 1999.

Graham County Utilities Company Rate Case (Docket No. G-02527A-00-0378), Arizona Corporation Commission, 2000.

Black Mountain Gas Company – Cave Creek Division Rate Case (Docket No. G-03703A-00-0283), Arizona Corporation Commission, 2000.

Southwest Gas Corporation, Natural Gas Rate Case (Docket No. G-01551A-00-0309), Arizona Corporation Commission, 2000.

Black Mountain Gas Company – Page Division Rate Case (Docket Nos. G-03493A-01-0263), Arizona Corporation Commission, 2001.

Duncan Rural Services – Natural Gas Rate Case (Docket No. G-02528A-01-0561), Arizona Corporation Commission, 2001.

Toltec Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000Y-01-0112), September 2001.

Lap Paz Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000AA-01-0116), December 2001.

ATTACHMENT RGG-1

Bowie Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000BB-01-0118), December 2001.

Southwest Gas Corporation, Acquisition of Black Mountain Gas Company (Docket No. G-01551A-02-0425), Arizona Corporation Commission, 2002.

Wellton-Mohawk Generating Facility Application Before the Arizona Power Plant and Line Siting Committee (Docket No. L-00000Z-01-0114), February 2003.

Arizona Public Service Company, Rate Proceeding (Docket No. E-01345A-03-0437), Arizona Corporation Commission, 2004.

Graham County Utilities Company Rate Case (Docket No. G-02527A-04-0301), Arizona Corporation Commission, 2004.

Southwest Gas Corporation, Rate Proceeding (Docket No. G-01551A-04-0876), Arizona Corporation Commission, 2004.

Southern California Edison, Devers – Palo Verde 2 Transmission Line Application before the Arizona Power Plant and Line Siting Committee, (L-00000A-06-0295-00130), 2006.

Semstream Arizona Propane Acquisition of Energy West (Docket G-02696A-06-0515), Arizona Corporation Commission, 2006.

UNS Gas Inc., Rate Proceeding (Docket No. G-04204A-06-0463), Arizona Corporation Commission, 2007.

Semstream Arizona Propane Acquisition of Black Mountain Gas Company – Page Division (Docket G-03703A-06-0694), Arizona Corporation Commission, 2007.

Northern Arizona Energy, LLC, Northern Arizona Energy Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000FF-07-0134-00133), 2007.

Arizona Public Service, Palo Verde Hub to North Gila 500 kV Transmission Lint Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000D-07-0566-00135), 2007.

Southwest Gas Corporation, Rate Proceeding (Docket No. G-01551A-07-0504), Arizona Corporation Commission, 2008.

Arizona Solar One, LLC, Solana Generating Station and Gen-Tie Application before the Arizona Power Plant and Line Siting Committee, (L-00000GG-08-0407-00139 and L-00000GG-08-0408-00140), 2008.

Coolidge Power Corporation, Coolidge Power Project Application before the Arizona Power Plant and Line Siting Committee, (L-00000HH-08-0422-00141), 2008.

Publications

(with David Berry, Kim Clark, Lewis Gale, Barbara Keene, and Harry Sauthoff) Staff Report on Resource Planning. (Docket No. U-0000-90-088) Arizona Corporation Commission, 1990.

(with Prem Bahl) "Transmission Access Issues: Present and Future," October, 1991.

(with David Berry) Substitution of Photovoltaics for Line Extensions: Creating Consumer Choices. Arizona Corporation Commission, 1992.

(with Barbara Keene and Kim Clark) Report of the Task Force on the Feasibility of Implementing Sliding Scale Hookup Fees, December, 1992.

(with Mike Kuby) "The Hub and Network Design Problem With Stopovers and Feeders: The Case of Federal Express," Transportation Research A., Vol. 27A, 1993, pp. 1-12.

(with David Berry) Staff Guidelines on Photovoltaics Versus Line Extensions. Arizona Corporation Commission, January 28, 1993.

(with Ray Williamson, Robert Hammond, Frank Mancini, and James Arwood) The Solar Electric Option (Instead of Power Line Extension). A joint publication of the Arizona Corporation Commission and the Arizona Department of Commerce Energy Office, August, 1993.

(with David Berry, Kim Clark, Barbara Keene, Jesse Tsao, Ray Williamson, Randall Sable, Roni Washington, Wilfred Shand, and Prem Bahl) Staff Report on Resource Planning. (Docket No. U-0000-93-052) Arizona Corporation Commission, 1993.

Staff Report On Rural Local Calling Areas. (Docket No. E-1051-93-183) Arizona Corporation Commission, March, 1994.

(with David Berry, Kim Clark, Barbara Keene, Glenn Shippee, Julia Tsao, and Ray Williamson) Staff Report on Resource Planning. (Docket No. U-000-95-506) Arizona Corporation Commission, 1996.

(with Barbara Keene) "Customer Selection Issues," NRRI Quarterly Bulletin, Vol. 19, No. 1, Spring 1998, National Regulatory Research Institute.

Staff Report on Purchased Gas Adjustor Mechanisms, (Docket No. G-00000C-98-0568) Arizona Corporation Commission, October 19, 1998.

Staff Report on the Rolling Average PGA Mechanism, (Docket No. G-00000C-98-0568), Arizona Corporation Commission, September 6, 2000.

Staff Report on the Use of a Circuit-Breaker in Adjustor Mechanisms, Arizona Corporation Commission, September 3, 2003.

Staff Report on Southwest Gas Filing for Pre-Approval of Cost Recovery for Participation in the Kinder Morgan Silver Canyon Pipeline Project, (Docket No. G-01551A-04-0192), Arizona Corporation Commission, June 2, 2004.

Staff Report on Arizona Public Service Company Filing for Pre-Approval of Cost Recovery for Participation in the Kinder Morgan Silver Canyon Pipeline Project, (Docket No. E-01345A-04-0273), Arizona Corporation Commission, August 16, 2004.

Staff Report on Arizona Public Service Company Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. E-01345A-05-0895), Arizona Corporation Commission, March 2, 2006.

Staff Report on Southwest Gas Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. G-01551A-06-0107), Arizona Corporation Commission, May 16, 2006.

Staff Report on UNS Gas Filing for Pre-Approval of Cost Recovery for Participation in the Transwestern Pipeline Phoenix Project, (Docket No. G-04204A-06-0627), Arizona Corporation Commission, January 30, 2007.

Staff Report on Semstream Arizona Propane, Payson Division issues, Arizona Corporation Commission, June 6, 2008.

Additional Training

1990	Seminars on Regulatory Economics
1993	PURTI course on Public Utilities and the Environment

ATTACHMENT RGG-1

1996	Center for Public Utilities Workshop on Gas Unbundling and Retail Competition
1997	NARUC 6 th Annual Natural Gas Conference
1998	Local Distribution Company Restructuring and Retail Access and Competition Conference
1998	NARUC 7 th Annual Natural Gas Conference
1999 – 2007	NARUC Summer Committee Meetings
2001	Center for Public Utilities Workshop on Risk Management in Gas Purchasing
2003-2008	NARUC Winter Committee Meetings
2004-2007	NARUC Annual Convention

Memberships

NARUC – Staff Subcommittee on Gas – member, 1998 - present
NARUC - Staff Subcommittee on Gas – Vice-Chair - 2002 - 2004
NARUC - Staff Subcommittee on Gas – Chair - 2005 - 2007
Michigan State Institute for Public Utilities – NARUC Advisory Committee – 2005-2007
NARUC - North American Energy Standards Board Advisory Council – 2006 - present
NARUC – DOE LNG Partnership – 2003 - present

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: April 10, 2009

RE: STAFF REPORT FOR ARIZONA WATER COMPANY AND GLOBAL WATER RESOURCES, LLC, CONSOLIDATED DOCKET FOR EXTENSIONS OF CERTIFICATES OF CONVENIENCE AND NECESSITY AND TRANSFER OF ASSETS (DOCKET NOS. W-01445A-06-0199, SW-03575A-05-0926, W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200, W-03576A-06-0200, SW-03575A-06-0200, WS-01775A-07-0485, SW-03575A-07-0485, W-02442A-07-0485, W-03576A-07-0485)

Attached is the Staff Report for Arizona Water Company ("Arizona Water") and Global Water Resources LLC's ("Global") consolidated docket addressing numerous requests for extensions of Certificates of Convenience and Necessity ("CC&N") for water and wastewater service as well as the transfer of assets from Francisco Grande Utilities and CP Water to Global. Staff recommends approval of the some of the CC&N extensions requested and the transfer of assets to Global, subject to certain conditions.

EGJ:RGG:red

Originator: Robert Gray

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Docket Nos. W-01445A-06-0199 et al

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Mr. Dwight Nodes
Assistant Chief Administrative Law Judge
Hearing Division
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Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

ARIZONA WATER COMPANY AND GLOBAL WATER RESOURCES LLC

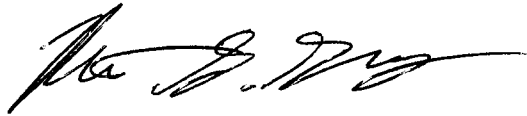
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**CONSOLIDATED DOCKET ADDRESSES REQUESTS FOR EXTENSIONS OF
CERTIFICATES OF CONVENIENCE AND NECESSITY AND TRANSFER OF
ASSETS**

APRIL 10, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company and Global Water Resources, LLC, Docket Nos. W-01445A-06-0199, SW-03575A-05-0926, W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200, W-03576A-06-0200, SW-03575A-06-0200, WS-01775A-07-0485, SW-03575A-07-0485, W-02442A-07-0485, and W-03576A-07-0485, was the responsibility of the Staff members listed below. Robert Gray prepared the Staff Report. Marlin Scott Jr. prepared the Engineering Report for Arizona Water Company. Dorothy Hains prepared the Engineering Reports for Global.



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INTRODUCTION

On December 28, 2005, Global filed an application (Docket No. W-03576A-05-0926) to provide water and wastewater service to areas west of I-10 in the Maricopa/Casa Grande areas of Pinal County. The application included 52 requests for service from property owners and developers in the extension area. The total requested extension area for Global-Santa Cruz was 19,300 acres (29 square miles) and 26,000 acres (40.6 square miles) for Global Palo Verde.

Three months later, on March 29, 2006, Arizona Water filed an application (Docket No. W-01445A-06-0199) to extend its CC&N in the same vicinity as related to Global's application. Arizona Water filed requests for service from four property owners to serve property which totaled approximately 200 acres (1/3 square mile) and attached the 52 requests for service filed by Global in Global's extension docket. Although 48 of the 52 requests were for service from Global, Arizona Water assumed that they evidenced a need for service and that Arizona Water was the most fit and proper water utility to provide service to those property owners.

On March 31, 2006, Arizona Water filed a complaint against Global (Docket No. W-01445A-06-0200, et al) alleging that Global was illegally conducting business as a public service corporation, Global used illegal financing arrangements and fee demands, and that Global was illegally infringing on Arizona Water's CC&N and interfering with its customers.

On April 7, 2006, Global filed a motion to intervene in the Arizona Water CC&N extension case, and by the April 23, 2006 14 of the 52 property owners whose property Arizona Water included in its extension area filed objections to being included in the Arizona Water application. Over the course of the next few months 11 motions to intervene were filed by some of the same parties who filed objections. All motions for intervention except the Robson Communities' were approved by procedural orders.

On May 17, 2007, Global filed a request for approval of another extension of its water and wastewater CC&Ns (W-03575A-07-0300 and SW-03575A-07-0300) in the same general area of Pinal County where Arizona Water serves. On June 15, 2007, Arizona Water filed a request to intervene in the Docket citing "first in the field" concerns because Arizona Water had extensive water facilities located immediately adjacent and contiguous to Global's proposed extension area. The Commission granted the intervention. Also, on December 20, 2007, the Commission consolidated the two Global and one Arizona Water CC&N extension cases.

On August 20, 2007, Francisco Grande Utilities Company ("Francisco Grande") and CP Water Company ("CP Water") filed an application requesting approval to transfer their CC&Ns and assets to Global. Global Water Resources, Inc. had purchased the stock of the two utilities.

On May 16, 2008, Arizona Water and Global docketed a Settlement Agreement ("Agreement") in the complaint proceeding which purported to resolve the issues of the Francisco Grande/CP Water transfer, the extensions and the complaint dockets. On August 5,

2008, by procedural order, the Commission consolidated the extension, transfer and complaint dockets.

On July 14, 2008, Global filed an amended application which updated financial statements, revised the requested extension area and preliminary well data and proposed facilities. Pursuant to the Agreement, Global removed from its requested extension area the area within Arizona Water's planning area. In addition, Global requested a CC&N extension to parcels included in new request for service letters from both the Palo Verde and Santa Cruz territories. The request for service letters represent an additional 1,234 acres of additional service territory.

On July 21, 2008, Arizona Water filed an amendment to its application, revising it to reflect the parameters set forth in the Agreement. Both Arizona Water and Global requested the transfer of a small portion of a section which is now in Arizona Water's planning area, but which was approved in a previous CC&N extension application to be served by Global. In the filing, Arizona Water also supplied a letter from the City of Casa Grande urging the Commission "to approve the amended CCN applications and Planning areas...and thereby advance the public policy objectives these utilities will achieve by effectively planning and providing for future water needs related to population growth within the City [of Casa Grande] and surrounding areas."

REQUESTS FOR SERVICE

Both Arizona Water and Global's initial filings to extend their CC&Ns contained a number of requests for service for the given areas. However, given the significant period of time that has elapsed since they were initially received, those requests for service have become rather stale. This is particularly true given the major changes in economic conditions that have taken place recently and the resulting massive decline in the pursuit of new developments and construction of new homes, including in Pinal County. Staff believes that given the length of time that has passed as well as the changed economic conditions, updated requests for service are an important factor in considering whether to grant some portion or all of the requested CC&N extensions.

At the October 9, 2008 procedural conference, the Administrative Law Judge stated "I'm going to be looking for updated information regarding the CC&N requests, in other words, do we have current requests for service".¹ On January 12, 2009, Arizona Water and Global filed testimony in this proceeding regarding the proposed Settlement Agreement and related matters. Arizona Water's testimony did not contain any updated requests for service, while Global's testimony contained a sizable number of updated requests for service. On January 27, 2009 and March 3, 2009, Global filed new and updated requests for service.

¹ Tr 5:29

On February 26, 2009, Arizona Water, in response to a Staff data request, notified Staff that it was seeking verbal affirmations of updated requests for service, via telephone contact to confirm requests for service. On March 23, 2009, Arizona Water, in response to a Staff data request, provided documentation showing which areas within its requested CC&N extensions it had received verbal confirmation of requests for service, along with affidavits verifying the verbal affirmations. Attached at Exhibit RGG-6 is a copy of the relevant pages from the February 26, 2009 and March 23, 2009 data requests responses.

Staff believes that the original requests for service are sufficiently stale, particularly given the dramatic changes in market conditions during the intervening time, and that they should not be relied upon in deciding what areas to grant or not grant CC&N extensions. Having reviewed the updated/new requests for service for Global and the verbal affirmation data provided by Arizona Water, Staff believes that the Commission should grant CC&N extensions to areas where there are updated/new requests for service for both water and wastewater service. This would encompass five parcels for Arizona Water, and a sizable number of parcels for Global. Attached is a map in Exhibit RGG-7 showing these areas for Arizona Water and Global.

There are also a number of requested areas where Arizona Water has a verbal affirmation of a request for service for water service, but Global does not have an updated/new request for service for wastewater service for the same areas. And similarly, there are a number of areas where Global has a new/updated request for service for wastewater service, but Arizona Water does not have matching verbal affirmations of requests for service for water service in those areas. Staff believes that given the particular circumstances of this case, the Commission should not grant CC&N extensions in areas where there is a new/updated request for service for one type of service, but a matching updated/new request for service for the other service is lacking. These are areas where utilities are available to provide both water and wastewater service, and the lack of an updated request for service for both classes of utility service raise the question of whether an extension of CC&Ns to these areas is necessary. However, if Global and/or Arizona Water are able to provide matching updated requests for service for these areas, subsequent to Staff's filing of its initial testimony in this proceeding, Staff would be amenable to supporting, at the hearing, the granting of additional CC&N extensions in those areas.

Exhibit RGG-7 uses the most recently provided maps from Arizona Water and Global to show the areas where Staff is recommending CC&N extensions. For the Arizona Water map contained in Exhibit RGG-7, Staff is recommending approval of CC&N extensions for the properties numbered one through four and nineteen (highlighted in green). Properties eight through eleven and sixteen (highlighted in pink), represent areas where Arizona Water has a verbal affirmation of the request for service, but there is not a matching request for service for wastewater service. Properties five, six, seven, and eighteen (highlighted in yellow) represent locations where Global has a new/updated request for wastewater service, but Arizona Water does not have a verbal affirmation of a request for water service.

For the Global maps contained in Exhibit RGG-7, Staff is recommending approval of CC&N extensions for all the areas where Global has new/updated requests for service for both

water and wastewater service. Staff is also recommending approval of CC&N extensions for areas where Global has a request for service for wastewater service, and the area either is in an existing Arizona water service territory, or Arizona Water has a verbal affirmation of a request for service in this proceeding. Staff is recommending denial of CC&N extensions in areas where Global has a request for wastewater service, but there is no corresponding updated/new request for water service. These areas are highlighted in yellow on the Arizona Water map, and are also highlighted in yellow on the Global maps in Exhibit RGG-7.

For both Arizona Water and Global, Staff recommends that each Company file legal descriptions consistent with the CC&N extension areas approved by the Commission in this proceeding, and that the Order in this proceeding not be effective until the legal descriptions are found to be acceptable by Staff.

WATER FACILITIES

For Arizona Water, the Casa Grande system serves the city of Casa Grande, with a total of approximately 22,600 service connections over a CC&N covering 164.9 square miles. Facilities include 17 wells, 5 arsenic treatment plants, nine storage tanks, and additional distribution system facilities. The Coolidge system services the city of Coolidge, with a total of approximately 4,800 service connections over a CC&N covering 53.4 square miles. Facilities include five wells, one nitrate treatment plant, four storage tanks, and additional distribution system facilities. The Stanfield system serves the community of Stanfield, with a total of 220 service connections over a CC&N covering approximately 16 square miles. Facilities include two wells, two storage tanks, and additional distribution system facilities. The Tierra Grande system services the community of Tierra Grande, with a total of 360 service connections and is located within Arizona Water's CC&N territory for the Casa Grande system. Facilities include two wells, two storage tanks, and additional distribution system facilities.

Global's Santa Cruz system serves approximately 15,700 customers with facilities including five drinking water wells, five storage tanks, and five pressure tanks.

Exhibit RGG-3 is the Staff Engineering Report for Arizona Water, prepared by Staff Witness Marlin Scott Jr. Based on the engineering analysis, Staff concludes that Arizona Water's Casa Grande and Stanfield systems will have sufficient production and storage capacity to serve the existing and proposed CC&N areas. Staff further concludes that the estimated costs for off-site and on-site facilities are reasonable, recognizing that approval of a CC&N extension does not imply any particular rate treatment in the future.

Exhibit RGG-4 is the Staff Engineering Report for Global's CC&N extensions, prepared by Staff Witness Dorothy Hains. Based on the engineering analysis, Staff concludes that Santa Cruz and Palo Verde have adequate capacity to serve customers in the requested areas. Staff further concludes that the estimated costs for Santa Cruz and Palo Verde are reasonable, recognizing that approval of a CC&N extension does not imply any particular rate treatment in the future.

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

For Arizona Water, an ADEQ report dated February 9, 2009, indicates that the Casa Grande, Coolidge, Stanfield, and Tierra Grande systems are in compliance.

For Global, ADEQ reports dated December 9, 2008 and January 29, 2009, show that Santa Cruz and Palo Verde, respectively, are in compliance. ADEQ has indicated that CP is not a public water system and is not regulated by ADEQ.

ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

For Arizona Water, the Casa Grande, Stanfield, and Tierra Grande systems are in compliance with ADWR. The Coolidge system is currently not in compliance regarding possible Lost and Unaccounted-for water violations. ADWR is conducting audits and Arizona Water is working with ADWR to resolve the issue.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket within one year of the effective date of an order in this proceeding, a copy of an updated ADWR Compliance Status Report indicating that the Coolidge System is in compliance.

Regarding Global, ADWR has determined that the Santa Cruz system is in compliance. However, Santa Cruz will need to modify its existing Designation of Assured Water Supply ("DAWS") to include any extension approved by the Commission. Therefore Staff recommends that Santa Cruz file with Docket Control as a compliance item in this Docket by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS has been modified and approved the includes the extension areas granted by the Commission in this proceeding.

ARIZONA CORPORATION COMMISSION COMPLIANCE

Both Arizona Water and Global are currently in compliance with previous Commission decisions, according to a check of the Utilities Division Compliance database.

CURTAILMENT TARIFF

Both Arizona Water and Santa Cruz have approved curtailments tariffs on file with the ACC.

TRANSFER OF ASSETS FROM FRANCISCO GRANDE UTILITY AND CP WATER TO PALO VERDE UTILITIES COMPANY AND SANTA CRUZ WATER COMPANY

On August 20, 2007, Francisco Grande and CP filed an application requesting approval of the transfer of their CC&Ns and their assets to Palo Verde Utilities Company and Santa Cruz Water Company. Specifically, approval of the following transactions was requested:

1. Transfer of Francisco Grande's wastewater CC&N to Palo Verde
2. Transfer of Francisco Grande's water CC&N to Santa Cruz
3. Transfer of CP's water CC&N to Santa Cruz
4. Transfer of Francisco Grande's wastewater assets to Palo Verde
5. Transfer of Francisco Grande's water assets to Santa Cruz
6. Transfer of CP's assets to Santa Cruz

All companies involved in this transfer of CC&Ns and assets are owned by Global. Global's application cites a number of benefits to the transaction, including economies of scale, improved efficiencies, and opportunities for conservation, regional planning, and integrated services.

Francisco Grande and CP are located in Pinal County southeast of the Town of Maricopa and west of the City of Casa Grande. CP's has a water service territory of approximately two square miles and currently serves 18 customers. CP purchases its water from Arizona Water and Santa Cruz would continue with this purchase agreement after the transfer of assets. Francisco Grande has a water service territory of approximately 14 square miles and a wastewater service territory of approximately 18 square miles and has no customers or water infrastructure.

The rates charged by Francisco Grande and CP were established when their CC&Ns were originally granted, in 1977 and 1984, and the rates are reflective of the previous utility which served the area in the 1960s, Giant Utility Company. Because Francisco Grande has no customers, there is no concern for rate impacts from the transfer of its CC&Ns. For CP's 18 current customers, their rates from CP are lower than the otherwise applicable rates they would pay to Santa Cruz after the proposed transfer of assets. The table below compares rates for CP and Santa Cruz.

	Rates for 5/8 and 3/4 inch meters
CP Water	\$5.00 for first 5,000 gallons. \$0.50 per 1,000 gallons in excess of minimum.
Santa Cruz Water Company	\$25.00 monthly usage charge, including 1,000 gallons. \$2.60 per 1,000 gallons.

Staff recommends that for CP's current customers, CP's existing rates should be retained until such time as new rates are determined for Santa Cruz in its next rate proceeding, which is currently before the Commission in Docket No. W-20446A-09-0080. If Staff's recommendation regarding rates for CP's customers is adopted, Staff would also recommend that Santa Cruz be

required to notify CP's existing customers of the on-going Santa Cruz rate proceeding and that they would be subject to rates and terms of service resulting from the current Santa Cruz rate proceeding.

Staff believes that the transfer of the CP and Francisco Grande CC&Ns and assets would provide possible economies of scale in the future and is consistent with the Commission's goal of seeing water companies consolidated when feasible and practicable. Staff recommends approval of the transfer of the CP and Francisco Grande CC&Ns and assets to Santa Cruz and Palo Verde.

RECOMMENDATIONS

Staff recommends that the Commission approve limited CC&N extensions for Arizona Water and Global, as discussed herein and shown in Exhibit RGG-7, and subject to the conditions listed below. Staff further recommends approval of the transfer of the CP and Francisco Grande assets to Santa Cruz and Palo Verde, subject to the conditions listed below.

Arizona Water

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2012, a copy of the Approval to Construct ("ATC") for the first parcel to be served in the extension areas.
2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2010, a copy of an updated ADWR Compliance Status Report indicating that the Coolidge System is in compliance.
3. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2011, a copy of the update ADWR Physically Availability Determination ("PAD") to include the requested extension areas.
4. Staff recommends that the Company file legal descriptions consistent with the CC&N extension areas approved by the Commission in this proceeding, and that the Order in this proceeding not be effective until the legal descriptions are found to be acceptable by Staff.
5. Staff recommends approval of the CC&N extension as discussed herein and reflected in the maps contained in Exhibit RGG-7.

Global

1. Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2012, a copy of Certificate of ATC issued by the ADEQ for the


wells, mains, storage tank and booster pump station installed to serve the first parcel of the requested extension area.

2. Staff recommends that Santa Cruz file with Docket Control as a compliance item in this Docket by December 31, 2011, a letter from ADWR indicating that the Santa Cruz Designation of Assured Water Supply ("DAWS") has been modified and approved to include the requested extension area.
3. Staff recommends that Palo Verde file with Docket Control as a compliance item by December 31, 2012, a copy of ATC for the sewer mains that serve the first parcel in the extension area.
4. Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS has been modified and approved to include the CP and Francisco Grande service areas.
5. Staff recommends that Palo Verde provides a copy of the amended 208 Plan to include service areas of CP and Francisco Grande by December 31, 2010.
6. Staff recommends that the Company file legal descriptions consistent with the CC&N extension areas approved by the Commission in this proceeding, and that the Order in this proceeding not be effective until the legal descriptions are found to be acceptable by Staff.
7. Staff recommends that for CP's current customers, CP's existing rates should be retained until such time as new rates are determined for Santa Cruz in its next rate proceeding, which is currently before the Commission in Docket No. W-20446A-09-0080.
8. Staff also recommends that Santa Cruz be required to notify CP's existing customers of the on-going Santa Cruz rate proceeding and that they would be subject to rates and terms of service resulting from the current Santa Cruz rate proceeding.
9. Staff recommends approval of the CC&N extension as discussed herein and reflected in the maps contained in Exhibit RGG-7.

MEMORANDUM

DATE: March 26, 2009

TO: Bob Gray
Executive Consultant III

FROM: Marlin Scott, Jr. 
Utilities Engineer

RE: Arizona Water Company – Casa Grande System
Docket No. W-01445A-06-0199 (CC&N Extension)

Introduction

Arizona Water Company (“Company”) has applied to extend its Certificate of Convenience and Necessity (“CC&N”) for its Casa Grande system. The requested areas will add approximately 88 square-miles to the Company’s existing 164.9 square-miles of Casa Grande certificated areas. The Company serves the City of Casa Grande in Pinal County.

In the Casa Grande vicinity, the Company also serves the City of Coolidge, the community of Stanfield and surrounding areas with three other water systems; Coolidge System, Stanfield System and Tierra Grande System. According to the Company, these three water systems will be interconnected in the future with the Casa Grande System and will become the Pinal Valley Water System.

Future Pinal Valley Water System

The Pinal Valley Water System currently consists of four water systems; Casa Grande, Coolidge, Stanfield and Tierra Grande. A brief description of each water system is as follows:

1. Casa Grande System – This water system serves the City of Casa Grande with 17 wells, five arsenic treatment plants, nine storage tanks, and a distribution system serving approximately 22,600 service connections. The CC&N for this system covers approximately 164.9 square-miles.
2. Coolidge System – This water system serves the City of Coolidge with five wells, one nitrate treatment plant, four storage tanks, and a distribution system serving approximately 4,800 service connections. This system was interconnected with the Casa Grande System in 2007 by a 16-inch water main

and 6-inch meter. The Coolidge System's CC&N covers approximately 53.4 square-miles.

3. Stanfield System – This water system serves the community of Stanfield with two wells, two storage tanks, and a distribution system serving approximately 220 service connections. The CC&N for this system covers 16 square-miles and is one mile from the Casa Grande's CC&N. The Stanfield distribution system is approximately 5-1/2 miles from the closest Casa Grande distribution system.
4. Tierra Grande System – This water system serves the community of Tierra Grande with two wells, two storage tanks, and a distribution system serving approximately 360 service connections. This system is located within the Casa Grande System's CC&N that covers approximate 164.9 square-miles. The Tierra Grande System is located approximately six miles from the closest Casa Grande distribution system and approximately two miles from the closest Coolidge distribution system.

The Company is planning to interconnect all the above water systems sometime in the future. Based on this assumption, the Company submitted a Design Report with a Master Plan map detailing a proposed grid of the Pinal Valley Water System in support of this filing.

The filing for this CC&N extension is for the western portion of the Pinal Valley Water System where the Casa Grande and Stanfield Systems are located. Therefore, Staff's analysis considered plant capacity and proposed plant facilities related only to the Casa Grande and Stanfield Systems.

System Capacities

Casa Grande System

According to data submitted by the Company, the Casa Grande System has 17 wells producing 17,580 gallons per minute ("GPM"), 15.11 million gallons of storage capacity, and a distribution system serving 22,600 service connections. The Company has predicted an additional 13,367 connections for the proposed CC&N extensions, resulting in a projected total customer base of approximately 36,000. Based on the existing well production and storage capacities, the system can serve approximately 38,250 service connections.

Stanfield System

According to data submitted by the Company, the Stanfield System has two wells producing 520 GPM, 120,000 gallons of storage capacity, and a distribution system serving 213 service connections. The Company has predicted an additional 14,010

connections for the proposed CC&N extensions, resulting in a projected total customer base of approximately 14,250. Based on the existing well production and storage capacities, the system can serve approximately 550 service connections.

Design Report for System Infrastructure

The Company submitted a Design Report, revised February 26, 2009, to support the proposed CC&N extension areas that provided an estimate of the projected water demands and identified the major infrastructure (i.e., wells, tanks, water treatment plants and transmission lines) required to satisfy the estimated demands. This Design Report also provided:

- The infrastructure needed to serve the expansion area for a period of 50 years and divided into 10-year intervals.
- The installation of transmission mains determined by actual development needs.
- A pipe line grid distribution system that included the CC&N expansion areas.
- A flow model of the Casa Grande System including the Stanfield System and the CC&N expansion area was provided showing the entire grid system for the expansion area, peak demands, and production for up to the year 2055.

Table 1 provides the estimated cost per 10-year planning interval of the required infrastructure for the entire Master Plan of the Pinal Valley Water System;

Table 1. Master Plan System Infrastructures

Year	Wells	Treatment Plant	Tanks
2008 - 2015	\$2,800,000	\$12,600,000	\$2,900,000
2015 - 2025	\$5,600,000	\$88,000,000	\$4,000,000
2025 - 2035	\$7,000,000	\$57,800,000	\$6,000,000
2035 - 2045	\$8,400,000	\$76,400,000	\$5,000,000
2045 - 2055	\$7,000,000	\$68,100,000	\$5,000,000
	\$30,800,000	\$302,900,000	\$22,900,000

Based on the flow model, it is the opinion of the Company that the proposed grid system is adequately sized to serve the entire Casa Grande and Stanfield Systems, including the CC&N expansion area. Staff has reviewed the Design Report, that included projected growth and the required system infrastructures, and concludes that the Company's proposal to serve the CC&N expansion area is reasonable.

Staff further concludes that the existing Casa Grande and Stanfield Systems will have adequate production and storage capacity to serve the existing and the proposed

CC&N extension areas and it can reasonably be expected that the Company will develop additional production and storage as required in the future.

Cost Estimates for the Parcels

The Company is proposing to extend its water systems into the requested areas by extension of its distribution systems using advances in aid of construction pursuant to main extension agreements and a proposed "Off-Site Facilities Fee". This Off-Site Facilities Fee, which is an Off-Site Facilities Hook-Up Fee Tariff, will be filed for Commission approval sometime in 2009.

The following tables provide the off-site and on-site plant facilities cost estimates for the parcels that requested service in the requested areas:

Table 2. Off-Site Plant Facilities

Infrastructure	Quantity	Cost per Unit	Cost
Wells	11 each	\$1,400,000	\$15,400,000
Storage Tanks	11,000,000 gallons	\$0.5	\$5,500,000
16"-Ductile Iron Pipe (DIP)	198,000 feet	\$130	\$25,740,000
		Total:	\$46,640,000

Table 3. On-Site Plant Facilities

Landowner/Developer	No. of Lots	6" DIP	8" DIP	12" DIP	Hydrants	Services	Meters	Totals
1-Ivan Jue	98	\$ 31,779	\$ 82,121	\$ 92,400	\$20,300	\$ 49,000	\$ 4,900	\$ 280,500
2-Jeff Holt	70	\$ 22,698	\$ 58,656	\$ 66,000	\$14,350	\$ 35,000	\$ 3,500	\$ 200,204
3-Loren Whipple	140	\$ 45,396	\$117,312	\$132,000	\$29,050	\$ 70,000	\$ 7,000	\$ 400,758
4-Brimhall Properties	315	\$102,141	\$263,952	\$297,000	\$65,100	\$ 157,500	\$ 15,750	\$ 901,443
5-Hondo 640	2,240	\$726,345	\$1,877,005	\$2,112,000	\$462,000	\$1,120,000	\$112,000	\$6,409,350
6-Parker Estates	2,240	\$726,345	\$1,877,005	\$2,112,000	\$462,000	\$1,120,000	\$112,000	\$6,409,350
7-Rio Lobo	2,240	\$726,345	\$1,877,005	\$2,112,000	\$462,000	\$1,120,000	\$112,000	\$6,409,350
8-Carranza Associates	280	\$ 90,792	\$ 234,624	\$ 264,000	\$57,750	\$ 140,000	\$ 14,000	\$ 801,166
9-Langley Stanfield Estates	1,544	\$500,499	\$1,293,377	\$1,455,300	\$318,500	\$ 772,000	\$ 77,200	\$4,416,876
10-Terbus Investments	140	\$ 45,396	\$ 117,312	\$ 132,000	\$ 29,050	\$ 70,000	\$ 7,000	\$ 400,758
11-Douglas Payne	280	\$ 90,792	\$ 234,624	\$ 264,000	\$ 57,750	\$ 140,000	\$ 14,000	\$ 801,166
12-Hamden & Chambers - BevNorm Olive	2,825	\$915,876	\$2,366,787	\$2,663,100	\$582,400	\$1,412,500	\$141,250	\$8,081,913
13-KEJE Group	280	\$ 90,792	\$ 234,624	\$ 264,000	\$57,750	\$ 140,000	\$ 14,000	\$ 801,166
14-Jorde Hacienda	10,920	\$3,540,933	\$9,150,401	\$10,296,000	\$2,252,250	\$5,460,000	\$ 546,000	\$31,245,584
15-BCY Limited Partnership	1,536	\$498,227	\$1,287,507	\$1,448,700	\$316,750	\$768,000	\$76,800	\$4,395,984
16-Carmichael & Sons Limited	175	\$ 56,745	\$ 146,640	\$ 165,000	\$ 36,050	\$ 87,500	\$ 8,750	\$ 500,685
17-Havard Capital	542	\$175,910	\$ 454,584	\$ 511,500	\$112,000	\$271,000	\$27,100	\$1,552,094
18-Kyvek Development	1,302	\$422,190	\$1,091,012	\$1,227,600	\$268,450	\$651,000	\$65,100	\$3,725,352
19-BET Investments	210	\$ 68,094	\$ 175,968	\$ 198,000	\$43,400	\$105,000	\$10,500	\$ 600,962
Total:	27,377							

Staff concludes that the estimated costs for the off-site and on-site plant facilities are reasonable. The approval of this CC&N extension application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant items was made and no conclusions should be inferred for future rate making or rate base purposes.

Arizona Department of Environmental Quality ("ADEQ") Compliance

Compliance Status

ADEQ regulates the Company's systems under the following ADEQ Public Water System ("PWS") I.D. numbers:

1. Casa Grande System, PWS #11-009
2. Stanfield System, PWS #11-012
3. Coolidge System, PWS #11-014

4. Tierra Grande System, PWS #11-076

Based on ADEQ Compliance Status Reports, dated February 9, 2009, ADEQ has determined that all the systems listed comply with ADEQ requirements and are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Certificate of Approval to Construct

The ADEQ Certificates of Approval to Construct ("ATC") for facilities needed to serve the requested areas have not been submitted by the Company. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2012, a copy of the ATC for the first parcel to be served in the extension area.

Arizona Department of Water Resources ("ADWR") Compliance

Compliance Status

The Company's Pinal Valley Water System is located within the Pinal Active Management Area ("AMA"). According to ADWR, the following water systems are in compliance with ADWR's requirements governing water providers and/or community water systems:

1. Casa Grande System
2. Stanfield System
3. Tierra Grande System

The Coolidge System is currently not in compliance with ADWR requirements due to the potential Lost and Unaccounted-for water violations. ADWR is currently conducting audits and the Company is working with ADWR to resolve this issue.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket within one year of the effective date of an order in this proceeding, a copy of an updated ADWR Compliance Status Report indicating that the Coolidge System is in compliance.

Physical Availability Demonstration ("PAD")

According to the Company, the Company holds an updated PAD with ADWR for the Pinal Valley Water System's planning area. This PAD indicates that a total of at least 120,000 acre-feet of groundwater is available annually for 100 years. When combined with reclaimed water, CAP water, and available irrigation district water, the total available water supply is over 250,000 acre-feet annually.

Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2011, a copy of the update PAD to include the requested extension areas.

Arizona Corporation Commission Compliance

A check with the Utilities Division Compliance Section showed no delinquent compliance issues for the Company.

Curtailment Tariff

The Company has an approved curtailment tariff for "All Service Areas" that became effective on July 23, 2004.

Summary

Conclusions

- A. Staff has reviewed the Design Report and concludes that the Company's proposal to serve the CC&N expansion area is reasonable.
- B. Staff further concludes that the existing Casa Grande and Stanfield Systems will have adequate production and storage capacity to serve the existing and proposed CC&N extension areas and it can reasonably be expected that the Company will develop additional production and storage as required in the future.
- C. Staff concludes that the estimated costs for the off-site and on-site plant facilities are reasonable. The approval of this CC&N extension application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant items was made and no conclusions should be inferred for future rate making or rate base purposes.
- D. Based on ADEQ Compliance Status Reports, ADEQ has determined that the Casa Grande, Stanfield, Coolidge, and Tierra Grande Systems comply with ADEQ requirements and are currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
- E. A check with the Utilities Division Compliance Section showed no delinquent compliance issues.
- F. The Company has an approved curtailment tariff for all its systems.

Recommendations

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2012 a copy of the ATC for the first parcel to be served in the extension area.
2. The Casa Grande, Stanfield and Tierra Grande Systems are in compliance with ADWR regulation. The Coolidge System is currently not in compliance with ADWR requirements due to the potential Lost and Unaccounted-for water violations. Staff recommends that the Company file with Docket Control, as a compliance item in this docket within one year of the effective date of an order in this proceeding, a copy of an updated ADWR Compliance Status Report indicating that the Coolidge System is in compliance.
3. Staff recommends that the Company file with Docket Control, as a compliance item in this docket by December 31, 2011, a copy of the update ADWR PAD to include the requested extension areas.

MEMORANDUM

DATE March 23, 2009

TO: Bob Gray
Executive Consultant III

FROM: Dorothy Hains, P. E. DH
Utilities Engineer

RE: **Water & Wastewater CC&N Extensions for Palo Verde Utilities, L.L.C. and Santa Cruz Water Company, L.L.C.**
Docket Nos. W-03575A-05-0926 & SW-03576A-05-0926
Docket Nos. W-03575A-07-0300 & SW-03576A-07-0300

I. INTRODUCTION

Santa Cruz Water Co. ("Santa Cruz") and Palo Verde Utilities Co. ("Palo Verde") collectively referred to herein as "Global Utilities" or the "Company", have submitted to the Arizona Corporation Commission ("ACC" or "Commission") Certificate of Convenience and Necessity ("CC&N") extension applications to provide water and wastewater services to an area southeast of the Town of Maricopa and west of the City of Casa Grande in northwest Pinal County. Santa Cruz and Palo Verde currently serve nearby areas that total approximately nineteen square miles. In this Application the Company seeks to add approximately nineteen square miles to its water service area and forty two square miles to its sewer service area. The requested area is located southeast of the existing CC&N area between the Maricopa/Casa Grande Highway and State Route 84. The Company estimates that 6,000 additional water and wastewater customers will be served in the requested area within five years.

Arizona Water Company has filed a competing application to serve some of the same area requested by Santa Cruz and Palo Verde.¹ However, this report will only address the Santa Cruz and Palo Verde applications.

II. SANTA CRUZ

A. *Water Systems*

(a) Existing Santa Cruz Water System

Santa Cruz operates a water system that consists of five drinking water wells (having a combined well capacity of 8,815 gallons per minute ("GPM")), five storage

¹ See Docket No. W-1445A-06-0199.

tanks (having a combined capacity of 6,500,000 gallons) and five pressure tanks (having a combined capacity of 30,000 gallons). Santa Cruz serves an existing customer base of approximately 15,700 customers². The Santa Cruz system has adequate capacity to serve its existing base of customers plus reasonable growth.

(b) Proposed South East Water System

The Company proposes to construct a new water system, the South East water system ("SEWS"), to serve the requested area. SEWS would consist of multiple wells with a minimum production capacity of 3,200 GPM and 2.5 million gallons of storage capacity. The water system will be designed to provide fire flow of 2,100 GPM for 4 hours³. The proposed SEWS plant site would be located in Section 10, Township 6 South, Range 4 East, near the intersection of Anderson Road and Barnes Road.

According to the Company, due to current economic conditions growth has significantly declined and none of the developers in the requested extension area have provided their proposed on-site water infrastructure plans to the Company for review. The Company, however, still expects to construct approximately 2 miles of distribution line, 2 wells, one booster pump station and one 3 million gallon storage tank during the first year to meet new customer demand. Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2012, a copy of Certificate of Approval to Construct ("ATC") issued by the Arizona Department of Environmental Quality ("ADEQ") for the wells, mains, storage tank and booster pump station installed to serve the first parcel requested extension area.

Staff concludes that the proposed system will have adequate capacity to serve customers in the requested extension area. Staff further concludes that it is reasonable to assume that Santa Cruz will develop additional capacity as needed to meet future growth in the requested area.

B. ADEQ Compliance Status

Staff received compliance status reports⁴ for Santa Cruz from ADEQ. ADEQ has determined that Santa Cruz is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

C. Arizona Department of Water Resources ("ADWR") Compliance Status

Santa Cruz is located in the Pinal Active Management Area ("AMA"), as designated by ADWR. ADWR has determined that Santa Cruz is currently in

² According to the Company's 2007 Annual Report Santa Cruz provided water service to 15,717 customers at the end of 2007.

³ The fire flow of 2,100 GPM for 4 hours is a requirement specified by Global Water Resources the parent of Santa Cruz and Palo Verde.

⁴ Staff received the compliance status reports from ADEQ on December 9, 2008.

compliance with departmental requirements governing water providers and/or community water systems. Santa Cruz has an approved Designation of Assured Water Supply ("DAWS"). However, Santa Cruz will need to modify its existing DAWS to include the requested extension area. Therefore, Staff recommends that Santa Cruz file with Docket Control as a compliance item in this Docket by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS has been modified and approved to include the requested extension area.

D. ACC Compliance Status

The Global Utilities are currently is in compliance with the ACC, a check of the Utilities Division Compliance database showed there were no delinquent compliance items.

E. Arsenic and Other Water Quality Issues

According to information submitted by the Company, no water quality data is available on what the arsenic levels might be in any new wells in the requested area. Nitrate concentrations above the maximum contaminant level ("MCL") will likely exist in the requested area due to past and current agricultural land use. The Company will be required to address any potential water quality issues before ADEQ will issue its ATC.

F. Curtailment Tariff

Santa Cruz has an approved curtailment tariff on file with the ACC.

G. Cost to Serve the Requested Extension Area

Total construction costs are estimated to be \$1,792,233 over the five year planning horizon. Staff concludes that this estimated cost is reasonable and appropriate for this project. The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

III. PALO VERDE

A. Wastewater Systems

(a) Existing Palo Verde Wastewater System

Palo Verde owns and operates what is referred to as the Camp 1 Water Reclamation Facility ("WRF") system that includes an enclosed three million gallon per day ("MGD") sequential batch reactor treatment plant, sand filters, ultra-violet disinfection units and an effluent reuse and surface water disposal system to serve its existing CC&N area. The Camp 1 WRF currently treats 1.5 MGD of wastewater flow.

The treated effluent is disposed of on a golf course, parks and other green areas with any excess discharged to a dry wash. The Palo Verde system has adequate capacity to serve its existing base of customers plus reasonable growth.

(b) Proposed Camp 3 Wastewater System

Initially the Company plans to pump the wastewater generated from the requested extension area to its existing Camp 1 WRF. The Company does not plan to begin construction of the Camp 3 WRF until the fall 2009 and construction would not be completed until 2010. Staff estimates that the Camp 1 WRF will need to handle an additional 643,500 gallons per day ("GPD") of wastewater flow from the requested extension area.

The proposed Camp 3 WRF would include an enclosed three MGD sequential batch reactor treatment plant, sand filters, ultra-violet disinfection units and an effluent reuse and surface water disposal system to serve the requested area. The proposed Camp 3 WRF would be located at the intersection of Val Vista Road and Anderson Road in Section 27 of Township 5 South, Range 4 East.

The Company stated that due to current economic conditions growth has significantly declined and none of the developers in the requested extension area have provided their proposed on-site wastewater infrastructure plans to the Company for review. The Company plans to install wastewater infrastructure of a 500,000 GPD wastewater treatment plant and one mile long gravity flow main to serve the requested area within the first year. Staff recommends that Palo Verde file with Docket Control as a compliance item by December 31, 2012, a copy of Certificate of ATC for the sewer mains that serve the first parcel in the extension area.

Staff concludes that the proposed system will have adequate capacity to serve customers in the requested extension area. Staff further concludes that it is reasonable to assume that Palo Verde will develop additional capacity as needed to meet future growth in the requested area.

B. Clean Water Act Section 208 Plan

Palo Verde has an approved Clean Water Act Section 208 Plan which includes the requested extension area.

C. ADEQ Compliance

Staff received a compliance status report from ADEQ dated January 29, 2009, in which ADEQ stated that Palo Verde is in compliance with Aquifer Protection Permit ("APP") reporting requirements and monitoring results.

D. ACC Compliance

A check of the Utilities Division Compliance database showed there were no delinquent compliance items.

E. Cost to Serve the Requested Extension Area

Total construction costs are estimated to be \$12,600,212 (approximately \$12/gallon) over the five year planning horizon. Staff concludes that the estimated costs are reasonable for this project. The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

IV. SUMMARY

I. Conclusions

1. Staff concludes that Santa Cruz and Palo Verde will have adequate capacity to serve customers in the requested area. Staff further concludes that the proposed water and wastewater systems will have adequate capacity to serve customers in the requested extension area. Staff further concludes that it is reasonable to assume that Santa Cruz and Palo Verde will develop additional capacity as needed to meet future growth in the requested area.
2. Santa Cruz is in compliance with ADEQ requirements and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. Palo Verde is in total compliance with ADEQ requirements.
3. Santa Cruz is located in the Pinal AMA, as designated by ADWR. ADWR has determined that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems.
4. According to the Utilities Division Compliance Section, Santa Cruz and Palo Verde have no delinquent ACC compliance issues.
5. Staff concludes that the estimated costs provided by Santa Cruz and Palo Verde are reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant was made, and no conclusions should be inferred for future rate making or rate base purposes.

6. Santa Cruz has an approved curtailment tariff.

II. Recommendations

1. Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2012, a copy of Certificate of ATC issued by the ADEQ for the wells, mains, storage tank and booster pump station installed to serve the first parcel of the requested extension area.
2. Staff recommends that Santa Cruz file with Docket Control as a compliance item in this Docket by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS has been modified and approved to include the approved extension areas.
3. Staff recommends that Palo Verde file with Docket Control as a compliance item by December 31, 2012, a copy of ATC for the sewer mains that serve the first parcel in the extension area.

MEMORANDUM

DATE March 10, 2009

TO: Bob Gray
Executive Consultant III

FROM: Dorothy Hains, P. E. *DH*
Utilities Engineer

RE: **Application of CP Water Company and Francisco Grande Utilities Company to transfer their Certificates of Convenience and Necessity and assets to Palo Verde Utilities Company and Santa Cruz Water Company**
Docket Nos. WS-01775A-07-0485, SW-03575A-07-0485, W-02442A-07-0485 & W-03576A-07-0485

I. INTRODUCTION

Francisco Grande Utilities Company ("Francisco Grande") and CP Water Company ("CP") request approval to transfer their Certificates of Convenience and Necessity ("CC&N") and their assets to Palo Verde Utilities Company ("Palo Verde") and Santa Cruz Water Company ("Santa Cruz"). Francisco Grande, CP, Palo Verde and Santa Cruz (collectively, the "Global Utilities") are each ultimately owned by Global Water Resources, LLC ("Global Parent"). The Global Utilities specifically request that the Commission:

- (1) Transfer Francisco Grande's wastewater CC&N to Palo Verde;
- (2) Transfer Francisco Grande's water CC&N to Santa Cruz;
- (3) Transfer CP's water CC&N to Santa Cruz;
- (4) Transfer Francisco Grande's wastewater assets, if any, to Palo Verde;
- (5) Transfer Francisco Grande's water assets, if any, to Santa Cruz; and
- (6) Transfer CP's assets to Santa Cruz.

CP is adjacent to Francisco Grande. Both CP and Francisco Grande are located near State HWY 238, southeast of the Town of Maricopa and west of the City of Casa Grande in Pinal County. In Decision No. 54089, the Commission approved a water CC&N area of approximately two square miles to CP. In Decision No. 33465, the Commission approved a water CC&N area of approximately fourteen square miles and a sewer CC&N area of approximately eighteen square miles to Francisco Grande.

II. WATER SYSTEM

A. Existing Water System

CP System

CP, a consecutive system, purchases its water from Arizona Water Company – Casa Grande System (“AZW-CG”) and resells the water to its 18 existing customers. The term of the service agreement between CP and AZW-CG is indefinite.

Francisco Grande Service Area

At present time, there is no water infrastructure installed in Francisco Grande CC&N service area and no customers being served.

Santa Cruz System

Santa Cruz operates a water system that consists of five drinking water wells (having a combined well capacity of 8,815 gallons per minute (“GPM”)), five storage tanks (having a combined capacity of 6,500,000 gallons) and five pressure tanks (having a combined capacity of 30,000 gallons). Santa Cruz serves an existing customer base of approximately 15,700 customers.¹ The Santa Cruz system has adequate capacity to serve its existing base of customers plus reasonable growth.

AZW-C G System

AZW-CG operates a water system that consists of eighteen drinking water wells (having a combined capacity of 20,320 GPM), eleven storage tanks (having a combined capacity of 14,270,000 gallons) serving approximately 23,000 customers. AZW-CG has adequate capacity to serve its existing base of customers plus reasonable growth.

B. Future Santa Cruz System

No growth is expected to occur in the CP service area during the next five years; CP will continue to purchase water from AZW-CG during this period.

No growth is expected to occur in the in the Francisco Grande service area during the next five years. Santa Cruz has no immediately plans to expand its water infrastructure to serve this area. Santa Cruz has stated, however, that if water service is requested in this area, Santa Cruz will install new water source, storage facility and other associated water system plant needed to serve the area.

¹ According to the Company’s 2007 Annual Report Company served 15,717 customers by end of 2007.

C. *Arizona Department of Environmental Quality ("ADEQ") Compliance Status*

Santa Cruz System

ADEQ has determined that Santa Cruz is currently in full compliance with its requirements.² ADEQ further states that Santa Cruz is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

AZW-CG System

ADEQ has determined that AZW-CG is currently in full compliance with its requirements.³ ADEQ further stated that the AZW-CG is currently delivering water that meet water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

CP System

ADEQ has determined that CP is not a public water system and is not regulated as such by ADEQ.⁴

D. *Arizona Department of Water Resources ("ADWR") Compliance Status*

Both Santa Cruz and AZW-CG are located in the Pinal Active Management Area ("AMA"), as designated by ADWR.

Santa Cruz

ADWR has determined that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems. Santa Cruz has an approved Designation of Assured Water Supply ("DAWS"). However, Santa Cruz needs to request ADWR to modify its existing DAWS to include the CP and Francisco Grande service areas. Therefore, Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2011, a letter from ADWR indicating that the Santa Cruz DAWS has been modified and approved to include the CP and Francisco Grande service areas.

AZW-CG

ADWR has determined that AZW-CG is currently in compliance with departmental requirements governing water providers and/or community water systems.

² Staff received the compliance status reports from ADEQ on December 9, 2008.

³ ADEQ correspondence dated June 27, 2008.

⁴ ADEQ correspondence dated July 18, 2008.

E. Arizona Corporation Commission ("ACC") Compliance Status

A check of the Utilities Division Compliance database showed there were no delinquent compliance items.

F. Curtailment Tariff

Santa Cruz, CP and Francisco Grande all have approved curtailment tariffs on file with the ACC.

III. WASTEWATER SYSTEM

A. Existing Wastewater System

CP Service Area

There is no public wastewater service available in the CP service area. All CP water customers are on septic tank systems.

Francisco Grande Service Area

There is no existing public wastewater system in the Francisco Grande service area since there are no customers at present time.

Palo Verde System

Palo Verde owns and operates a wastewater treatment system that includes an enclosed three million gallon per day ("MGD") sequential batch reactor treatment plant, sand filters, ultra violet disinfection units and an effluent reuse and surface water disposal system to serve the existing Palo Verde service area.

B. Future Wastewater System

Palo Verde will need to extend its existing wastewater collection system to serve the CP and Francisco Grande service areas when demand for service develops in these areas. Because of the recent economic downturn it is not clear when development in the CP and Francisco Grande service areas will occur.

C. Clean Water Act Section 208 Plan

Palo Verde has an approved Clean Water Act Section 208 Plan. Because the existing 208 plan exclude CP and Francisco Grande, Staff recommends that Palo Verde provides a copy of the amended 208 plan to include service areas of CP and Francisco Grande by December 31, 2010.

D. ADEQ Compliance

Staff received a compliance status report from ADEQ dated January 29, 2009 in which ADEQ stated that Palo Verde is in compliance with Aquifer Protection Permit ("APP") reporting requirements and monitoring results.

E. ACC Compliance

A check of the Utilities Division Compliance database showed there were no delinquent compliance items.

IV. SUMMARY

I. Conclusions

1. ADEQ has determined that Santa Cruz is currently in full compliance with its requirements.⁵ ADEQ further states that Santa Cruz is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. ADWR has determined that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. A check of the Utilities Division Compliance database showed there were no delinquent compliance items.
4. Santa Cruz, CP and Francisco Grande all have approved curtailment tariffs on file with the ACC.
5. Staff concludes that both Santa Cruz water and Palo Verde wastewater systems have adequate capacity to serve the existing customer base and reasonable growth in the expanded service area.⁶ Staff further concludes that it is reasonable to assume that both Santa Cruz and Palo Verde systems will develop additional capacity as needed to meet future growth.
6. ADEQ reported that Palo Verde is in full compliance with APP reporting and monitoring requirements.

II. Recommendation

1. Staff recommends that Santa Cruz file with Docket Control as a compliance item by December 31, 2011, a letter from ADWR indicating

⁵ Staff received the compliance status reports from ADEQ on December 9, 2008.

⁶ Refers to the resulting service areas of Santa Cruz and Palo Verde after the service areas originally certificated to CP and Francisco Grande are added.

that the Santa Cruz DAWS has been modified and approved to include the CP and Francisco Grande service areas.

2. Staff recommends that Palo Verde provides a copy of the amended 208 Plan to include the service areas of CP and Francisco Grande by December 31, 2010.

**ARIZONA WATER COMPANY'S RESPONSE TO
ARIZONA CORPORATION COMMISSIONS
STAFF'S ELEVENTH SET OF DATA REQUESTS**

Docket Nos. W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200,
W-03576A-06-0200, SW-03575A-06-0200, W-01445A-06-0199, SW-03575A-05-0926,
W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, WS-01775A-07-0485,
SW-03575A-07-0485, W-02442A-07-0485, and W-03576A-07-0485

March 23, 2009

Company Response Number: BG11.1

- Q. Indicate when Arizona Water plans to provide Staff with the verbal affirmations of requests for service Arizona Water referenced in Staff Data Request LJ-1.**
- A. The current status of the oral affirmations is being provided in the Company's response to Requests BG 11.2 and BG 11.3 below. The Company will update this response by providing copies to Staff of any written affirmations of the oral affirmations that the Company receives as soon as they become available, and as further affirmations are received, the Company will supplement these responses as well.**

Response provided by:	William M. Garfield
Title:	President
Address:	3805 North Black Canyon Highway Phoenix, AZ 85015

**ARIZONA WATER COMPANY'S RESPONSE TO
ARIZONA CORPORATION COMMISSIONS
STAFF'S ELEVENTH SET OF DATA REQUESTS**

**Docket Nos. W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200,
W-03576A-06-0200, SW-03575A-06-0200, W-01445A-06-0199, SW-03575A-05-0926,
W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, WS-01775A-07-0485,
SW-03575A-07-0485, W-02442A-07-0485, and W-03576A-07-0485**

March 23, 2009

Company Response Number: BG 11.2

Q. Regarding the verbal affirmations of requests for service Arizona Water is soliciting, provide a sworn affidavit affirming that Arizona Water has received those verbal affirmations.

A. See attached Affidavits.

Response provided by:	William M. Garfield
Title:	President
Address:	3805 North Black Canyon Highway Phoenix, AZ 85015


AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

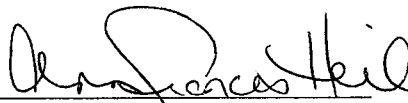
Lou Ann Rock, being first duly sworn, upon her oath, deposes and says:

1. I am employed as an Administrative Secretary with Arizona Water Company (the "Company") and have been employed as such continuously since August 1, 2005. I make this Affidavit in connection with Request No. BG 11.2 of Staff's Eleventh Set of Data Requests in Docket No. W-01445A-06-0199 (Consolidated) (the "Docket").
2. Over the course of several days, beginning on February 10, 2009, I made telephone calls to property owners or representatives of property owners for parcel numbers 1 through 4 and 8 through 9 (these parcel numbers correspond to a map that the Company is providing the Staff in response to Staff's Data request No. BG 11.3).
3. The purpose of the telephone calls referenced in paragraph 2, above, was to reaffirm the property owner's request for water service in the Docket.
4. The property owner or property owner's representative that I spoke to for each parcel referenced in paragraph 2, above, informed me that they still wished to receive water service.
5. The Company's Vice President and General Counsel, as part of his duties, followed up my telephone calls with letters requesting a written affirmation of the oral affirmation of the requests for water service.
6. As of the date of this Affidavit, one (1) of the property owners or property owner representatives that I called has furnished written affirmation of their oral confirmation.
7. The information contained in this Affidavit is true and accurate to the best of my knowledge.

DATED this 23rd day of March, 2009.

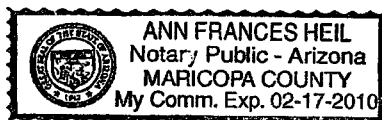

Lou Ann Rock

SUBSCRIBED AND SWORN TO before me this 23rd day of March, 2009.


Notary Public

My Commission Expires:

2-17-2010




AFFIDAVIT

STATE OF ARIZONA)
) ss.
County of Maricopa)

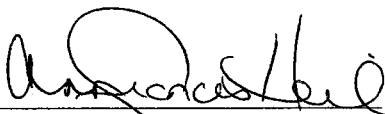
Charles Briggs, being first duly sworn, upon his oath, deposes and says:

1. I am employed as a Real Property Specialist with Arizona Water Company (the "Company") and have been employed by the Company continuously since December 14, 1992. I make this Affidavit in connection with Request No. BG 11.2 of Staff's Eleventh Set of Data Requests in Docket No. W-01445A-06-0199 (Consolidated) (the "Docket").
2. Over the course of several days, beginning on February 10, 2009, I made telephone calls to property owners or representatives of property owners for parcel numbers 10 through 19, inclusively (these parcel numbers correspond to a map that the Company is providing the Staff in response to Staff's Data request No. BG 11.3).
3. The purpose of the telephone calls referenced in paragraph 2, above, was to reaffirm the property owner's request for water service in the Docket.
4. The property owner or property owner's representative that I spoke to for parcel numbers 10, 11, 16 and 19 referenced in paragraph 2, above, informed me that they still wished to receive water service, and wished to receive water service from the Company. However, I have not been able to reach by telephone property owners or property owner representatives for numbers 12, 13, 14, 15, 17, and 18.
5. The Company's Vice President and General Counsel, as part of his duties, followed up my telephone calls with letters requesting a written affirmation of the oral affirmation of the requests for water service.
6. As of the date of this Affidavit, one (1) of the property owners or property owner representatives that I called or tried to call has furnished written affirmation of their oral confirmation.
7. The information contained in this Affidavit is true and accurate to the best of my knowledge.

DATED this 23rd day of March, 2009.

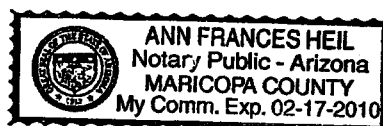

Charles Briggs

SUBSCRIBED AND SWORN TO before me this 23rd day of March, 2009.


Notary Public

My Commission Expires:

2-17-2010



**ARIZONA WATER COMPANY'S RESPONSE TO
ARIZONA CORPORATION COMMISSIONS
STAFF'S ELEVENTH SET OF DATA REQUESTS**

**Docket Nos. W-01445A-06-0200, SW-20445A-06-0200, W-20446A-06-0200,
W-03576A-06-0200, SW-03575A-06-0200, W-01445A-06-0199, SW-03575A-05-0926,
W-03576A-05-0926, SW-03575A-07-0300, W-03576A-07-0300, WS-01775A-07-0485,
SW-03575A-07-0485, W-02442A-07-0485, and W-03576A-07-0485**

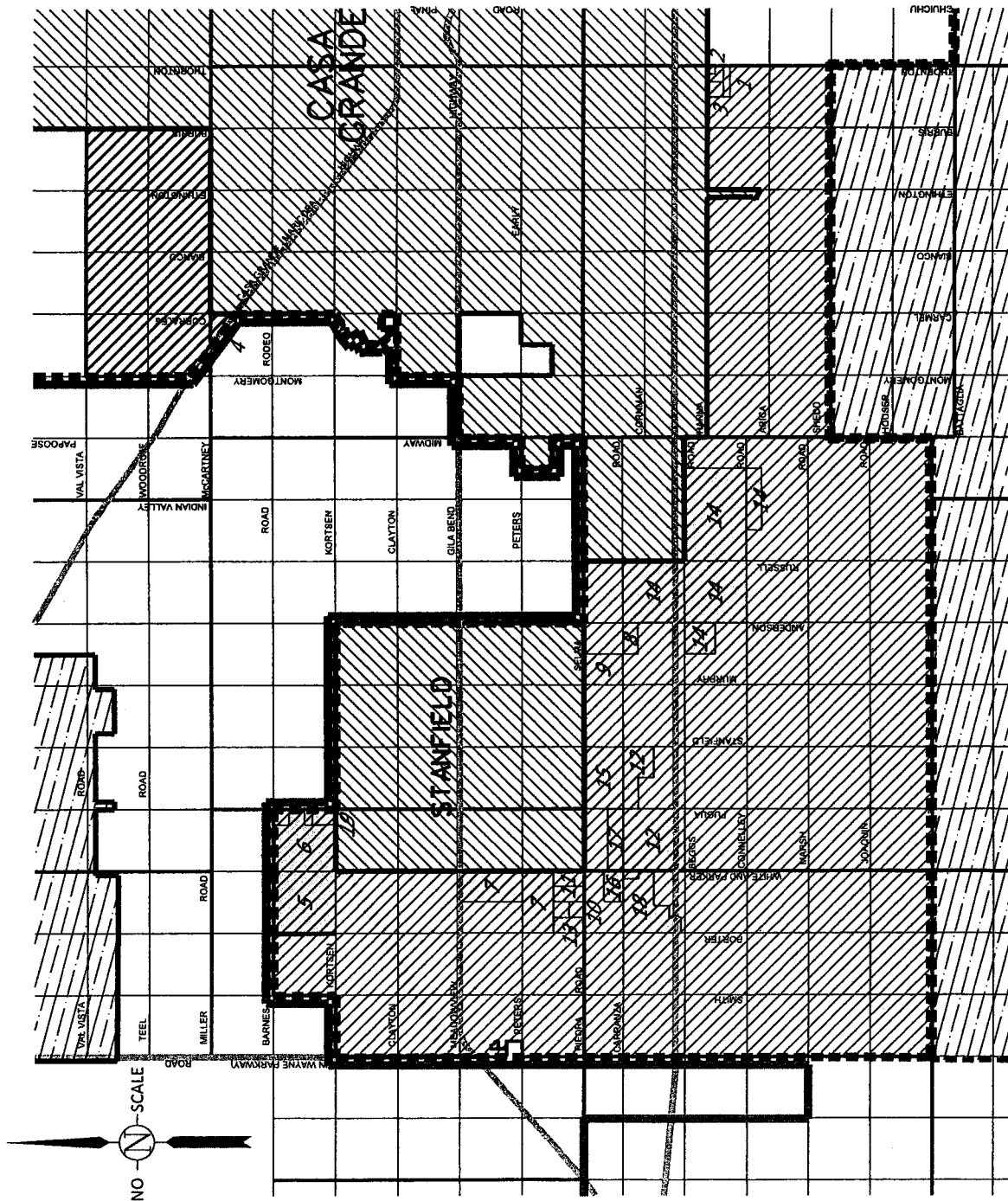
March 23, 2009

Company Response Number: BG 11.3

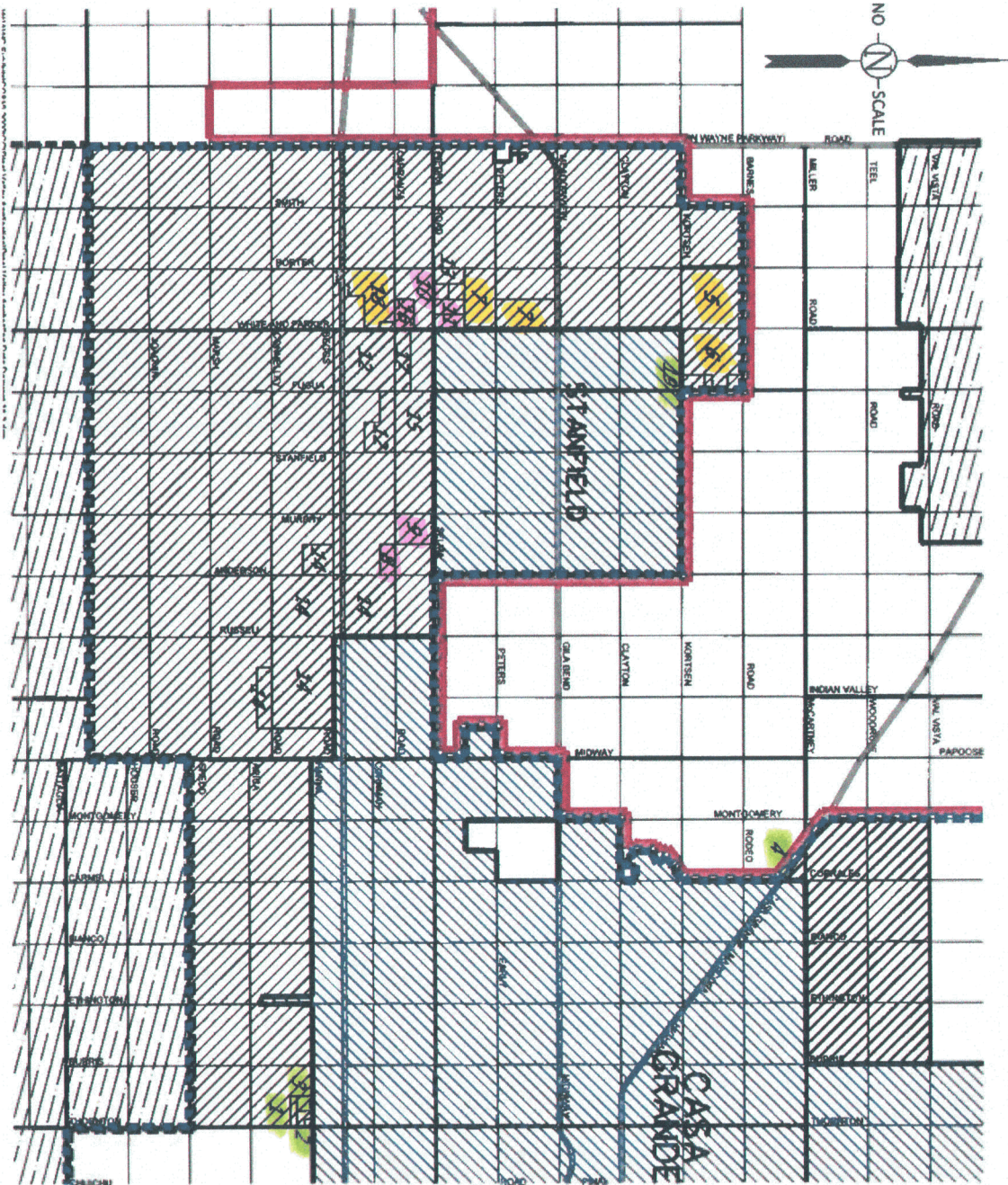
- Q. Provide an updated map as attached to Staff Data Request MSJ-9.1a, showing the areas where Arizona Water has received the verbal affirmations of requests for service.**
- A. See attached map.**

Response provided by:	Fredrick K. Schneider
Title:	Vice President - Engineering
Address:	3805 North Black Canyon Highway Phoenix, AZ 85015

BG 11.3



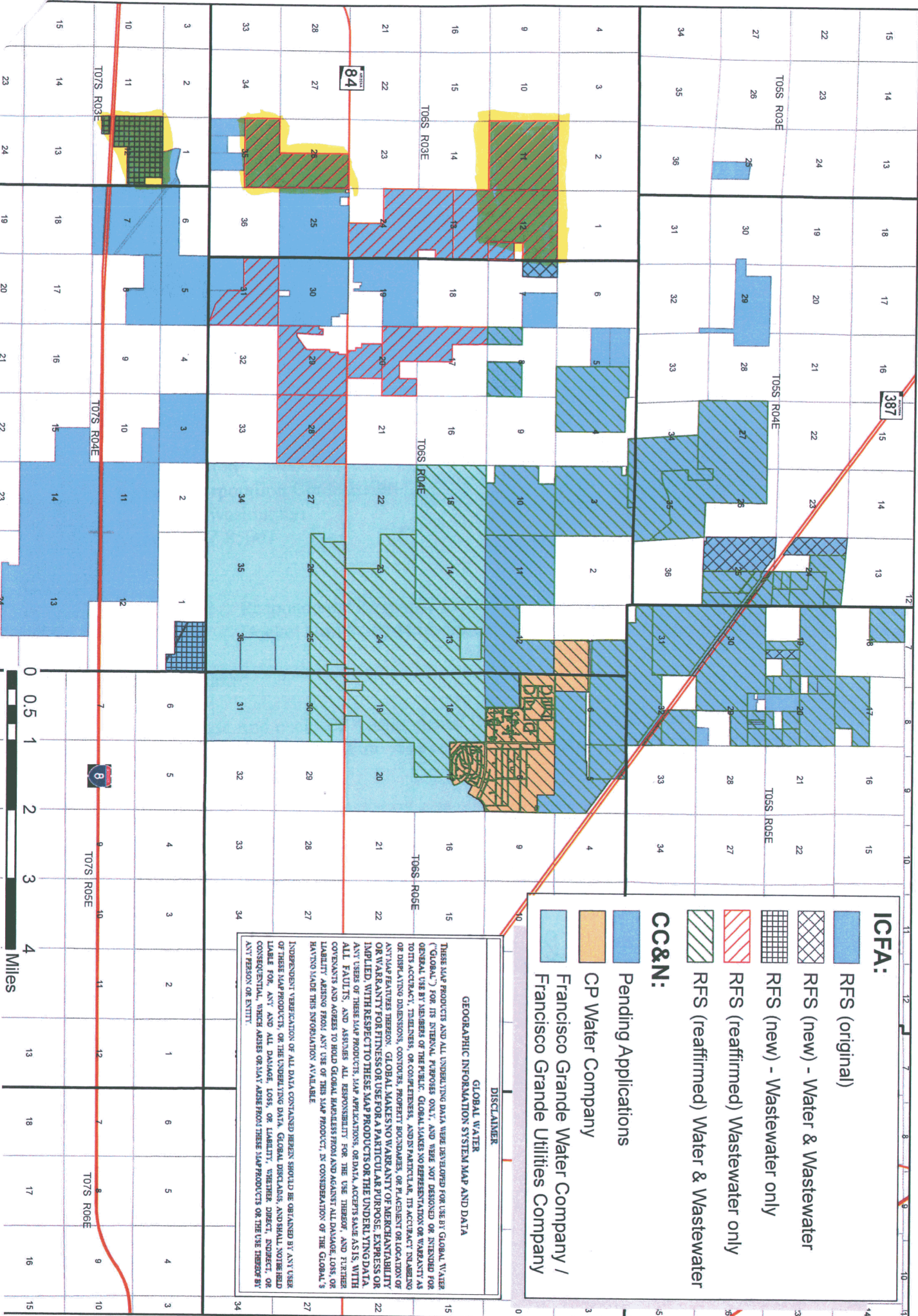
LEGEND	PROPERTY OWNER	REQUEST FOR SERVICE	VERBAL AFFIRMATION	AWC WATER SYSTEM
1	Ivan Jue	Yes	✓	CASA GRANDE
2	Jeff Holt	Yes	✓	CASA GRANDE
3	Loren Whipple	Yes	✓	CASA GRANDE
4	Brimhall Properties	Yes	✓	CASA GRANDE
5	Hondo 640	Yes		STANFIELD
6	Parker Estates	Yes		STANFIELD
7	Rio Lobo	Yes		STANFIELD
8	Carranza Associates	Yes	✓	CASA GRANDE
9	Langley Stanfield Estates	Yes	✓	CASA GRANDE
10	Terfus Investments	Yes	✓	STANFIELD
11	Douglas Payne	Yes	✓	STANFIELD
12	Hampden & Chambers - BevNorm Olive	Yes		STANFIELD
13	KEJE Group	Yes		STANFIELD
14	Jorde Hacienda	Yes		CASA GRANDE
15	BCJ Limited Partnership	Yes		STANFIELD
16	Carmichael & Sons Limited	Yes	✓	STANFIELD
17	Harvard Capital	Yes		STANFIELD
18	Kyvet Development	Yes		STANFIELD
19	BET Investments	Yes	✓	STANFIELD



BG 11.3

LEGEND	PROPERTY OWNER	REQUEST FOR SERVICE	VERBAL AFFIRMATION	AVC WATER SYSTEM
1	Iron Age	Yes	✓	CASA GRANDE
2	Jeff Holt	Yes	✓	CASA GRANDE
3	Loose Whipple	Yes	✓	CASA GRANDE
4	Brennall Properties	Yes	✓	CASA GRANDE
5	Hondo Ltd	Yes		STANFIELD
6	Parker Estates	Yes		STANFIELD
7	Rio Lobo	Yes	✓	STANFIELD
8	Carrisa Associates	Yes	✓	CASA GRANDE
9	Langley Stanford Estates	Yes	✓	CASA GRANDE
10	Traflet Investments	Yes	✓	STANFIELD
11	Douglas Payne	Yes	✓	STANFIELD
12	Hampden & Chambers - Bentum Olive	Yes		STANFIELD
13	KECE Group	Yes		STANFIELD
14	Jovis Hudson	Yes		CASA GRANDE
15	ACT Limited Partnership	Yes		STANFIELD
16	Carmichael & Sons Limited	Yes	✓	STANFIELD
17	Harvest Capital	Yes		STANFIELD
18	Rye Development	Yes		STANFIELD
19	RET Investments	Yes	✓	STANFIELD

Request For Service Areas: Exhibit 1 to DR 11-1



ICFA:

- RFS (original)
- RFS (new) - Water & Wastewater
- RFS (new) - Wastewater only
- RFS (reaffirmed) Wastewater only
- RFS (reaffirmed) Water & Wastewater
- CC&N:
- Pending Applications
- CP Water Company
- Francisco Grande Water Company /
- Francisco Grande Utilities Company

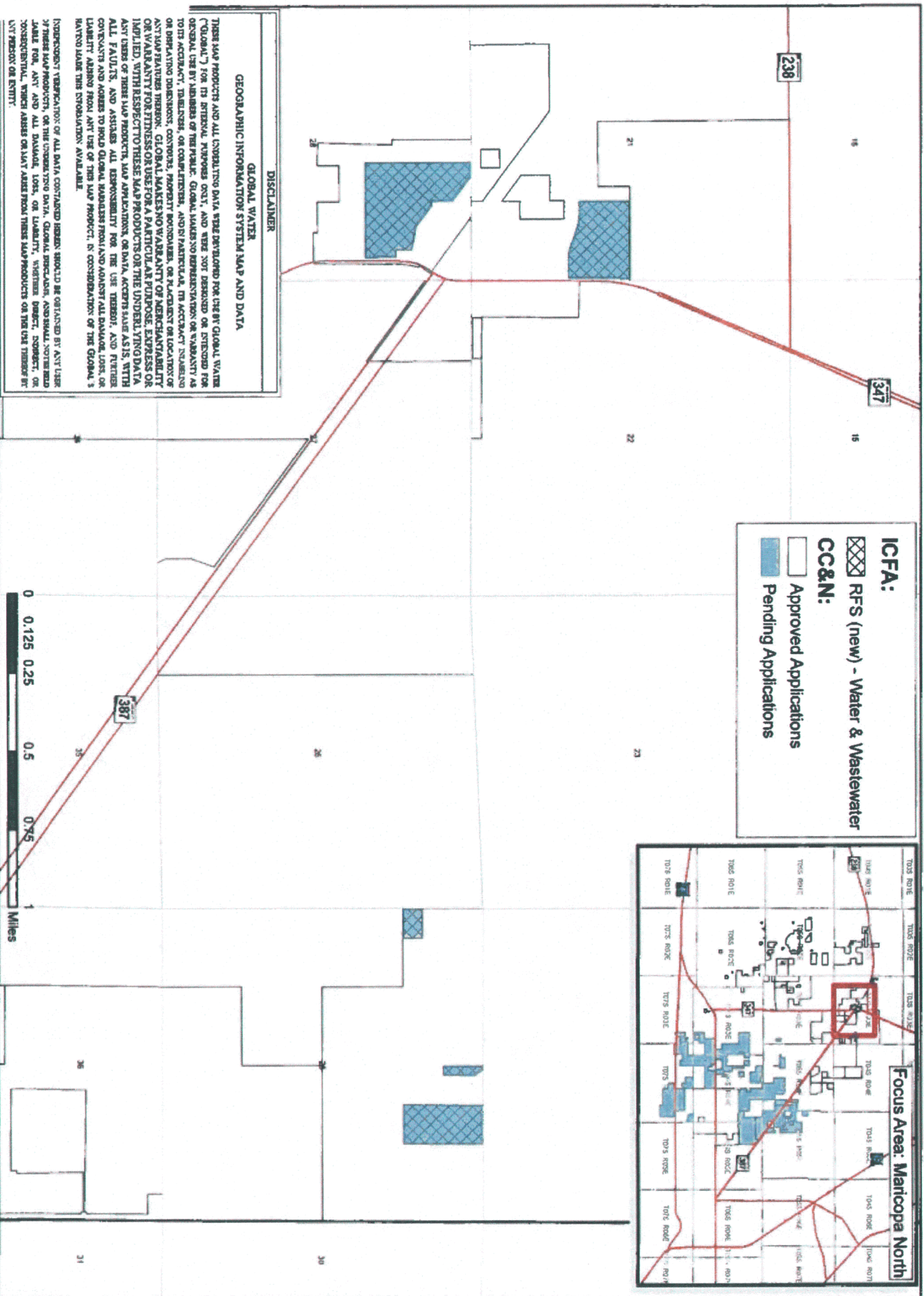
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GLOBAL WATER GEOGRAPHIC INFORMATION SYSTEM MAP AND DATA

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Request For Service Areas: Exhibit 1



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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

ARIZONA WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. W-01445A-06-0199

PALO VERDE UTILITIES COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. SW-03575A-05-0926

SANTA CRUZ WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO- W-03576A-05-0926

PALO VERDE UTILITIES COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO. SW-03575A-07-0300

SANTA CRUZ WATER COMPANY)
APPLICATION FOR AN EXTENSION)
OF ITS EXISTING CERTIFICATE OF)
CONVENIENCE AND NECESSITY)
_____)

DOCKET NO- W-03576A-07-0300

ARIZONA WATER COMPANY)
COMPLAINANT VS GLOBAL)
WATER RESOURCES, LLC, ET AL)
_____)

DOCKET NOS. W-01445A-06-0200
SW-20445A-06-0200
W-20446A-06-0200
W-03576A-06-0200
SW-03575A-06-0200

JOINT APPLICATION OF CP WATER)
COMPANY AND FRANCISCO)
GRANDE UTILITIES COMPANY TO)
TRANSFER THEIR CERTIFICATES OF)
CONVENIENCE AND NECESSITY AND)
ASSETS TO PALO VERDE UTILITIES)
COMPANY AND SANTA CRUZ WATER)
COMPANY.)
_____)

DOCKET NO. WS-01775A-07-0485
SW-03575A-07-0485
W-02442A-07-0485
W-03576A-07-0485

DIRECT
TESTIMONY
OF
LINDA A. JARESS
EXECUTIVE CONSULTANT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

APRIL 10, 2009

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Linda A. Jaress. I am an Executive Consultant III in the Utilities Division of
3 Arizona Corporation Commission ("ACC" or "Commission"). My business address is
4 1200 West Washington Street, Phoenix, Arizona 85007.

5
6 **Q. Please state your educational background and professional experience.**

7 A. I received a Bachelor of Arts Degree from Michigan State University and a Master of
8 Business Administration Degree from the University of Hawaii. I was employed as a
9 Research Analyst for the Hawaii Trucking Association from 1977 through 1978 and as a
10 Financial Analyst for the State of Hawaii, Division of Consumer Advocacy from 1980
11 through 1985. In 1985, I was employed by the Arizona Corporation Commission
12 ("Commission") as a Senior Rate Analyst and received a promotion to Manager, Financial
13 Analysis in 1991. I also served as the Acting Chief of the Accounting and Rates Section
14 for a total of 12 months during 1997 and 2000. On January 1, 2001, I was promoted to the
15 position of Executive Consultant III.

16
17 **Q. Please list your duties and responsibilities as Executive Consultant III.**

18 A. I complete special projects for the Director's Office.
19

20 **Q. How is your testimony organized?**

21 A. Arizona Water Company ("Arizona Water") and Global Water Resources, LLC
22 ("Global") (together, "the Companies") entered into a Settlement Agreement
23 ("Agreement") as a "compromise of disputed claims" on May 15, 2008. In the Staff
24 Report attached, I will address the financial health of the Companies, the Agreement, and
25 whether the Commission should approve the Settlement Agreement.
26

1 **Q. What are your conclusions and recommendations?**

2 A. Staff concludes that Arizona Water's financial health would support customer growth in
3 the extension areas as described in Staff member Bob Gray's testimony. Although Staff
4 has some concerns regarding Global's financial health, Staff believes that it is in the
5 public interest to allow Global to extend its service territory into the areas recommended
6 in Mr. Gray's testimony.

7
8 Staff also concludes that there is no need for the Commission to approve either the
9 Settlement Agreement or the planning areas. Staff recommends the Commission deny
10 Global's and Arizona Water's request for approval of the Settlement Agreement and
11 approval of the planning areas.

12
13 **Q. Does this conclude your testimony?**

14 A. Yes, it does.

MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: April 10, 2009

RE: ARIZONA WATER COMPANY APPLICATION FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-01445A-06-0199)

PALO VERDE UTILITIES COMPANY APPLICATION FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. SW-03575A-05-0926)

SANTA CRUZ WATER COMPANY APPLICATION FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO- W-03576A-05-0926)

PALO VERDE UTILITIES COMPANY APPLICATION FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. SW-03575A-07-0300)

SANTA CRUZ WATER COMPANY APPLICATION FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO- W-03576A-07-0300)

ARIZONA WATER COMPANY COMPLAINANT VS GLOBAL WATER RESOURCES, LLC, ET AL (DOCKET NO. W-01445A-06-0200, DOCKET NO. SW-20445A-06-0200, DOCKET NO. W-20446A-06-0200, DOCKET NO. W-03576A-06-0200, DOCKET NO. SW-03575A-06-0200)

JOINT APPLICATION OF CP WATER COMPANY AND FRANCISCO GRANDE UTILITIES COMPANY TO TRANSFER THEIR CERTIFICATES OF CONVENIENCE AND NECESSITY AND ASSETS TO PALO VERDE UTILITIES COMPANY AND SANTA CRUZ WATER COMPANY (DOCKET NO. WS-01775A-07-0485, DOCKET NO. SW-03575A-07-0485, DOCKET NO. W-02442A-07-0485, DOCKET NO. W-03576A-07-0485)

Attached is a Staff Report for the consolidated cases listed above. In this Staff Report, Staff recommends that the Commission not grant the request of Global Water Resources, LLC

and Arizona Water Company for Commission approval of the planning areas and the Settlement Agreement.

EGJ:LAI:red

Originator: Linda A. Jaress

The Settlement Agreement

On May 15, 2008, Arizona Water Company ("Arizona Water") and the Global Water Resources, LLC ("Global") (together, "the Companies") entered into a Settlement Agreement ("Agreement") as a "compromise of disputed claims". The Agreement was filed in the docket the following day. The Agreement includes the following:

- Planning area boundaries for each company.
- Agreement to jointly request Commission approval of the planning areas.
- Withdrawal of objections to each others' pending dockets.
- Withdrawal of Arizona Water's formal complaint against Global after "the Commission's approval of the Amended Planning Areas and Certificate of Convenience and Necessity ("CC&N") Applications".
- Agreement by Global to not sell reclaimed water within Arizona Water's planning area except to Arizona Water who would be the retail provider of reclaimed water.
- Agreement that the parties may withdraw from the Agreement in the event the Commission does not approve the planning areas and CC&N applications, does not dismiss the complaint case, or imposes conditions or restrictions which are burdensome or unacceptable.

In general, the Agreement will serve to reduce the drain of management time and costs of legal services of both companies by resolving the dispute over service territories and the complaint of Arizona Water against Global. The Agreement should also aid the Companies in their efforts to plan capital improvements. However, Staff has one concern regarding Paragraph 7.a. of the Agreement which reads:

"In order to ensure that maximum efficiencies can be attained by Arizona Water Company in its deployment of potable and reclaimed water, neither Global nor Global Water- Palo Verde Utilities company shall sell or distribute reclaimed water within Arizona Water Company's CCN or Planning Area except to Arizona Water Company, which shall be the retail provider of reclaimed water in such areas."

Staff believes the availability and appropriate use of reclaimed water to be a benefit to the public. This paragraph appears to restrict the sale of reclaimed water to anyone in Arizona Water's planning area except Arizona Water. If another company receives Commission approval to serve within Arizona Water's planning area, according to the Agreement, Global would not sell reclaimed water to that company. Staff recommends that the Commission place Global and Arizona Water on notice that they cannot contract away obligations to provide reclaimed water to parties who request such service and that the Commission will be the entity that determines which utility provides which services in which geographic areas.

Commission Approval of the Settlement Agreement and Planning Areas

The Companies have requested that the Commission approve both the planning areas and the Agreement. The benefit of Commission approval would be to instill more confidence in the enforceability of the Agreement, reducing potential disagreements and support for long term planning.

Although the Companies realize that Commission approvals of the planning areas "do not create a right to a future certificate", one of the disadvantages of Commission approval of the Agreement and planning areas would be the implicit reservation of service territories for Global and Arizona Water. Approval could also imply approval of the accompanying costs of regional planning and even approval of excess capacity in rate cases. For example, if the Commission was to approve a planning area, the utility constructs plant to serve the planning area and the utility does not receive a request for service, it might seem contradictory for the Commission to not allow recovery of the cost of the plant.

There are several circumstances under which Commission approval of the Agreement and planning areas may be problematic. They include; growth of development in unexpected locations within the planning areas resulting in higher costs if the planning areas are enforced; Global or Arizona Water could evolve into companies which are no longer fit or proper to provide service to new areas; a utility with lower costs than either Arizona Water or Global may desire to serve part of the planning areas; and there could be disputes over the planning areas which might require the Commission to act as an arbitrator.

Furthermore, the Companies do not need Commission approval of either the Agreement or the planning areas. For example, Johnson Utilities, Inc. and Diversified Water Company entered a service territory agreement without Commission approval and have been operating under the agreement for several years. Staff is unaware of any associated problems.

Finally, planning for expansion is a part of any business, regulated or not. It is the responsibility of utility management to appropriately plan for expansion and the utility should assume the risk related to the implementation of those plans. Certainly large utilities such as Arizona Public Service and Tucson Electric Power Company should keep the Commission informed about their plans for capital improvements, but the Commission does not approve the plans.

Due to the contingencies listed above and the lack of a need for Commission approval of the Agreement and planning areas, Staff recommends the Commission not confine its discretion by giving explicit approval to the Agreement and planning areas. Staff believes the Commission should retain its current flexibility to choose among the universe of water utilities to serve an area and not limit itself to specific companies. Staff believes that it is not in the public interest for the Commission to approve either the planning areas or the Agreement itself.

Financial Health

An approved CC&N extension obligates a utility to serve all customers in the extension area. If either of the utilities has difficulty in acquiring financing, it may not be able to serve those who request service. Also, it is conceivable that Pinal County could eventually resume its place as a high-growth area and the utilities will need to access the financial markets to keep pace with the growth. Therefore, Staff has performed a brief analysis of the financial health of the two Companies.

Arizona Water's operations are organized into divisions while Global is the parent of several incorporated utilities which each have separate financial statements. Both Global and Arizona Water are the primary source of capital for their respective utility operations.

Because Arizona Water's operations are organized into divisions and are not separate business entities, it files a consolidated annual report with the Commission. From the 2008 annual report provided, Staff concludes that Arizona Water is in good financial health. Although net income fell from \$3.9 million in 2007 to \$2.9 million in 2008, Arizona Water continues to generate positive net income. Its capital structure remains strong at 48 percent common equity and 52 percent long-term debt. Its times interest earned ratio ("TIER") (earnings before interest and taxes divided by interest expense) at year end 2008 was 2.2 which reflects a more than adequate ability to make interest payments on debt.

Global provided Staff with 2008, highly-confidential, draft financial statements. Global is not required to file a non-confidential annual report to the Commission because it is the holding-company parent and not a utility. Staff reviewed Global's 2008 financial statements under terms of a confidentiality agreement and determined that Global continues to carry a capital structure with a very low equity ratio. Global's net income fell significantly from 2007 to December 31, 2008 but continues to be positive. Global's TIER ratio is reaching a level where a potential investor might have concerns about the risk associated with loaning money to Global.

Clearly, Arizona Water's financial health is no cause for concern, while Global's is. However, six of Global's utilities have recently applied to the Commission for rate increases, including two of the utilities serving the area at issue in Pinal County. Also, Global is currently before the Commission with an application to issue equity through either an initial public offering or a private offering of common stock. These measures should, over time, result in increased financial strength. Finally, Global has recently been losing customers in Pinal County as a result of foreclosures and abandonment of homes. To the extent that additional customers can be served by plant already installed, revenue from the customers moving into the extension area would contribute to improvement in Global's financial health.

Conclusions and Recommendations

Staff concludes that Arizona Water's financial health would support customer growth in the extension areas as described in Staff member Bob Gray's testimony. Although Staff has

some concerns regarding Global's financial health, Staff believes that it is in the public interest to allow Global to extend its service territory into the areas recommended in Mr. Gray's testimony.

Staff also concludes that there is no need for the Commission to approve either the Settlement Agreement or the planning areas. Staff recommends the Commission deny Global's and Arizona Water's request for approval of the Settlement Agreement and approval of the planning areas.